



## **Varieties of Devolution : Visionary and Precautionary Economic Policy Formulation in Scotland & Wales**

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### **Executive Summary**

1. Scotland's more powerful form of devolution than that enacted for Wales is associated with a relatively *visionary* policy approach towards economic development, compared to a more *precautionary* approach in Wales.
2. Wales suffered a belated 'second deindustrialisation' of manufacturing industry after 1998 and the Welsh Assembly Government (WAG) has responded by substantially increasing employment in public administration. Scotland, with more expansive powers, has transformed important parts of the economic development policy environment by embracing the reality of the 'Knowledge Economy' and the redirection of inward investment away from the UK periphery to the EU's accession bloc of countries, North Africa and Asia, especially China.
3. Scotland reveals policy interest in and development of innovative instruments aimed at 'joining-up' distinct parts of its 'innovation system' focused on a knowledge-based economic development strategy. Wales has introduced several entrepreneurship and innovation supporting instruments as promoted by EU regional policy theory. These are not systematically integrated on the ground,

therefore lack synergies and have under-performed. Economic policy in Wales is somewhat overwhelmed by the exigencies of Objective 1 expenditure and precautionary concerns towards both the UK and supranational levels of governance on policy acceptability.

4. Much policy making is targets-obsessed and somewhat over-ambitious in Wales. Policy is thus strongly paper and expenditure inputs driven, which makes targets difficult to achieve and something of a rod for the backs of WAG Ministers. Scotland's policy approach seems less targets-driven and more imaginative accordingly. This is certainly because of greater policy freedom from, for example, Structural Funds rules, but also because of the greater autonomy built into Scotland's devolution settlement.
5. The paper argues, therefore, that there is evidence that weak devolution (of the kind that may be anticipated for the English regions) is a poor option for dynamic, experimental policy-making. This is exacerbated where a weak lower tier is faced with strong constraints from both the national and supranational levels of the multi-level governance structure. The conclusion here is that strong devolution is a superior governance regime that stimulates *visionary* rather than *precautionary* policy formulation.

## **Introduction**

It is well-known that the two British devolved territories, Scotland and Wales, received distinctive varieties of devolution. Crucially, Scotland received tax-raising and primary legislative powers while Wales received neither. The Richard Commission is currently exercised in determining whether there is a case for the Welsh Assembly to be granted further powers. This is not least because of confusion arising contingently over policy crises, notably responding to the devastating foot and mouth disease outbreak, where the Welsh Assembly Government's (WAG) Agriculture Minister was hampered from

responding rapidly by Whitehall conventions<sup>1</sup>, or policy ‘U-turns’ where, for example, there is little enthusiasm in Wales for the UK Education Minister’s commitment to increasing student fees but the Minister does not know if that resistance can be realised as policy. Scotland, with its greater devolutionary powers was able to be far firmer and clearer on both these issues.

This paper explores another important policy field, economic development, for which territories like Scotland and Wales can be characterised as being in more or less permanent policy crisis as the UK government 1997 onwards pursued a strong sterling policy outside the Eurozone that, as we shall see, has devastated in particular manufacturing employment. To this are added new pressures on competitiveness caused by global economic recession following the bursting of the Internet stock market bubble from March 2000. So serious is the haemorrhaging, estimated at 100,000 manufacturing jobs per year in the UK since New Labour came to power in 1997 that DTI has raised its ‘bail-out’ fund from £2 billion to £6 billion.<sup>2</sup> This is for England. One of the unexplored issues of Devolution is how DTI is now DTI England rather than UK, *de facto* if not *de jure*, and how far this is the case for other UK government Ministries? It could be added that it is also a sign of the corpse of ‘Old Labour’ stirring at the flight of manufacturing jobs to developing countries with low labour costs, and recognition of the pain of both the death throes of the ‘Industrial Age’ and the birth pangs of the Knowledge Economy. For it remains UK government policy to deliver a knowledge-driven economy, something to which the recent *Wales for Innovation* plan also aspires and, as we shall see the Scottish Executive’s ‘*Smart, Successful Scotland*’ strategy commits economic policy.

The title refers to two kinds of policy making, the first *visionary*, the second *precautionary*. It is intended as a simple distinction that nevertheless captures complex reasons why policy systems do or do not branch out from ‘path dependence’<sup>3</sup> despite comparable initial conditions. It will be argued that Scotland has enacted a *visionary* economic development policy while Wales has adopted a *precautionary* one. An

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<sup>1</sup> John Osmond & Barry Jones (2003) *Birth of Welsh Democracy*, Cardiff, Institute of Welsh Affairs

<sup>2</sup> Faisal Islam (2003) ‘Alarm sounds as DTI bailout fund tops £6bn.’ *The Observer* 2(Business) 23 February.

<sup>3</sup> Brian Arthur (1994) *Increasing Returns and Path Dependence in the Economy*, Ann Arbor, Michigan University Press

example of the first kind is often taken to be Japan, pursuing an internationally expansive consumption goods strategy from the 1950s, outcompeting the West on quality, reliability *and* price criteria, a policy subsequently emulated by the Asian ‘Tigers’. A *precautionary* policy was followed in the same period by the UK, conservatively hanging on to Victorian industry and industrial practices, reluctant to invest in research and innovation, and failing adequately to modernise institutionally, either in general constitutional terms or in more specific economic governance. Until the 1990s Japan and its emulators thrived; even Finland was spoken of as Europe’s Japan for its systemic commitment to support the electronics industry and Nokia as a ‘national champion’<sup>4</sup>. Meanwhile the UK economy languished, losing ground to many it had historically superseded. Taking policy precautions not to stray from historic economic pathways meant the UK eschewed ‘the vision thing’. Scotland, it will be shown, is developing economic policies that seek to transcend old, and even not so old, path dependencies. Wales seems constrained to taking precautions against exercising foresight to embrace possibly ‘faddish’ abstractions like the Knowledge Economy<sup>5</sup>

### What Is the Knowledge Economy?

A definition of the Knowledge Economy is ‘an economy in which more than 40% of employees are employed in high technology manufacturing and knowledge-intensive services’. These are computing, telecommunications, software, biotechnology and

Region >40% Knowledge Economy		Region	<40% Knowledge Economy	
EU Position			EU Position	
Stockholm	58.65 (1)	Gelderland	39.99	(87)
London	57.73 (2)	Northern Ireland	37.31	(97)
Helsinki	51.5 (11)	Sachsen	35.97	(109)
Paris	50.17 (16)	Upper Austria	34.28	(123)

<sup>4</sup> Christopher Freeman (1995) ‘The National System of Innovation in comparative perspective’ *Cambridge Journal of Economics*, 19, 5-24

<sup>5</sup> This is most plainly articulated in staunch devolution and Labour supporter Kevin Morgan’s popular pieces e.g. in *Agenda* ‘Overworked, under-resourced & unloved’, Autumn 2001, 38-41, and reference to the incongruity of ‘Knowledge Economy’ policy in a Wales with 25% workforce illiteracy/innumeracy and, in the *Western Mail*, ‘Construction jobs vital to survival’ (p. 12, 22 April, 2003) the ‘insidious’ nature of the idea of a knowledge economy that ‘equates to high tech’. The first view is questionable given that London, as one of the top ‘Knowledge Economies’ in Europe (see Table 1) ‘carries’ high levels of educational dysfunction, while the second is ill-informed given the official definitions used by OECD and EU which include employment in health and education plus other ‘knowledge intensive services’.

Stuttgart	48.84	(19)	Athens	33.79	(125)
S.W. Scotland	47.59	(24)	Navarre	32.06	(135)
East Wales	43.91	(53)	Auvergne	31.82	(137)
W. Wales & V.	42.87	(60)	Calabria	31.29	(141)
Rhône-Alpes	42.22	(67)	Alentejo	18.63	(179)
S. & E. Ireland	40.18	(86)	Aegean Islands	12.70	(188)

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Table1: Selected Regions From Knowledge Economy Index, 1998 Data

Source: Eurostat Regions: Yearbook, 2001; Cooke & De Laurentis (2002) *EU*

*Knowledge Economy Index*, Cardiff, Centre for Advanced Studies.

aerospace, on the one hand, and research, media, financial services, health and education services, on the other. According to Table 1, some 43% (86 from 188 regions) of EU regions score 40% or more in the *EU Knowledge Economy Index*<sup>6</sup>

One reason why this happens is that the UK is a far less manufacturing intensive, more services-based economy than all but Sweden in the EU. Another reason is that the EU statistics office, Eurostat, includes automotives in the ‘high technology manufacturing’ category, incidentally boosting Wales, whereas the Organisation for Economic Cooperation & Development (OECD) formula places it outside. Finally, Wales has above average health and education employment, as we shall see.

### **Manufacturing Meltdown**

While these statistics appear to provide comfort to those seeking to show the Welsh economy, even its weaker Objective 1 region, is performing acceptably, they actually register a relative high point before the rot set in. Since those 1998 data were published, the Welsh economy has experienced a unique turnaround. Quantitatively, the rankings of the two Welsh regions remain much the same despite the loss, shown in Table 2, of 44,000 private, manufacturing jobs between November 1998 and the same month in 2002, but qualitatively and from an economic development viewpoint a deterioration has occurred. This is because of the simultaneous rise of 67,000 public administration jobs, overwhelmingly in health and education. This substitutes higher value adding,

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<sup>6</sup> P. Cooke & C. De Laurentis (2003) ‘EU Knowledge Economy Index,’ *Regional Industrial Research Paper No. 41*, Cardiff University, Centre for Advanced Studies.

higher productivity, export earning jobs for, by and large, jobs likely to be increasingly reliant on financial transfers from Whitehall. Under devolution, due to an absence of *visionary* policy making to tackle changed global economic realities, Wales is becoming more dependent not less on London for the underwriting of its economic future. As a *precaution* against rising net job loss WAG has used its own block grant resources, growing as UK expenditure on health and education burgeons, rapidly to increase employment in those sectors plus direct public administration.

Wales is becoming more ‘knowledge intensive’ in statistical terms, unusually through rapid expansion of public administration. *Most economics textbooks are silent on the propulsive role of public sector employment in a world of globalisation, competitiveness and technological innovation.* Conventional, monetarist economists see a ‘bloated’ public sector ‘crowding out’ competitive, innovative and entrepreneurial spirits. Unlike Scotland, the policy approach to the knowledge economy in Wales seems to have brought forth a new model of job-generation, the nearest predecessor of which may be that practised by Gosplan, the Soviet Union’s economic development agency. But such a judgement may warrant partial revision, as will be suggested later.

The question needing investigation is what happened and why to reverse the upward trajectory of Welsh manufacturing. In Table 2 comparative statistics of manufacturing job change 1991-2001 reveal Wales until 1998 as the UK’s only increasing source of manufacturing employment. Table 3 then shows what happened until November

Region	2001 (%)	1998 (%)	1991 (%)	%Change 91-01	%Change 91-98	%Change 98-01
E. Midlands	20.5	21.5	26.7	-6.2	-1.2	-1.0
Eastern	14.5	17.1	19.7	-5.2	-2.6	-2.6
London	6.4	7.8	10.0	-3.6	-2.2	-1.4
North East	16.5	21.1	21.6	-5.1	-0.5	-4.6
North West	16.4	20.2	22.1	-5.7	-1.9	-3.8
South East	11.2	13.9	15.5	-4.3	-1.6	-2.7
South West	14.2	13.9	15.5	-3.2	-0.7	-2.5
W. Midlands	19.9	25.7	28.0	-8.1	-2.3	-5.8

Yorks. & H.	17.8	21.3	23.0	-5.2	-1.7	-3.5
Scotland	12.8	15.4	17.6	-4.8	-2.2	-2.6
Wales	17.1	21.7	21.6	-4.5	+0.1	-4.6
GB	14.1	17.4	19.3	-5.2	-1.9	-3.3

Table 2: Manufacturing Employment Change in Great Britain, 1991-2001 (March)

Source: Office of National Statistics

2002, the last date for which Labour Force Survey statistics are available at the time of writing. Briefly, this table shows three relevant things. First, note the growth in Welsh manufacturing 1991-1998. Second, note the higher than average percentage job loss in manufacturing 1998-2001 (which nevertheless translated into a relatively modest 9,287 jobs). Accordingly, third, we see Wales' slippage from third to fourth in regional manufacturing employment share in Britain.

In the UK, large firms accounted for two-thirds of the losses and Wales is unlikely to be much different. Next the analysis takes us up to November 2002, as shown in Table 3. This table reveals three important features for the 1998-2002 period. First, although not the largest magnitude in absolute numbers, the Welsh percentage decline in manufacturing was, at 4.6%, the steepest. Second, the two-to-one ratio of large firm to SME job loss suggests that large firms accounted for approximately 30,000 of the 44,000 jobs lost from 1998-2002. Third, Wales slipped from fourth to sixth in regional manufacturing employment share in approximately one year.

Region (000s)	2002 %	2001 %	2000 %	1998 %	1994 %
E. Midlands	434 21.0	453 21.9	455 22.6	481 24.1	494 26.4
Eastern	430 15.5	460 16.6	444 16.2	465 17.6	475 19.0
London	287 8.0	284 8.0	282 8.1	319 9.4	310 10.1
North East	194 17.6	210 19.1	220 19.9	233 21.7	205 19.6
North West	557 17.4	569 18.2	594 19.1	622 20.4	665 22.6
Scotland	336 13.9	337 14.1	368 15.3	375 16.1	380 16.7
South East	569 13.6	582 14.0	567 13.8	656 16.3	600 16.2
South West	366 14.7	364 14.8	385 15.8	378 16.2	377 17.1

Wales	206 15.8	220 17.4	223 17.7	250 20.4	237 19.9
W. Midlands	563 22.5	572 22.8	567 23.2	639 25.8	629 26.7
Yorks. & H.	444 18.7	440 18.7	479 20.3	477 20.8	471 21.3
GB	4,386 15.7	4,491 16.2	4,584 16.7	4,893 18.2	4,843 19.1

Table 3: Regional Manufacturing Employment Change, 1994-2002 (November)

Source: Office of National Statistics

Moving on, Table 4 shows how fast employment in ‘public administration’ has grown in Wales of late. Wales now has the highest share of employment accounted for by public administration in the land. Reflecting back on the 1998-2002 period that saw a major downturn in the manufacturing labour market, the 67,000 rise in public administration employment more than made up for the 44,000 manufacturing jobs lost in that period.

Region (000s)	2002 %	2001 %	2000 %	1998 %	1994 %
E Midlands	502 24.3	488 23.6	467 23.2	438 21.9	400 21.4
Eastern	640 23.1	633 22.9	637 23.2	570 21.6	475 19.0
London	850 23.8	851 24.0	771 22.1	769 22.7	731 23.7
North East	326 29.6	327 29.7	301 27.3	283 26.4	263 25.2
North West	874 27.4	856 27.4	853 27.4	756 24.8	720 24.5
Scotland	690 28.6	671 28.1	649 27.0	635 27.2	583 25.6
South East	1,004 24.0	974 23.4	987 24.0	960 23.8	864 23.3
South West	653 26.1	626 25.4	642 26.4	588 25.2	564 25.6
Wales	415 31.8	368 29.1	368 29.2	348 28.4	311 26.1
W. Midlands	606 24.2	621 24.8	568 23.2	559 22.5	516 21.9
Yorks. & H.	634 26.7	592 25.2	604 25.6	552 24.1	513 23.1
GB	7,193 25.7	7,008 25.3	6,846 24.9	6,459 24.1	5,964 23.5

Table 4: Regional Public Administration Employment Change, 1994-2002 (November)

Source: Office of National Statistics



## Scotland's More 'Visionary' Approach in Face of an Economic Sea Change

Returning to Table 3 we see Scotland's new deindustrialisation hit earlier so that although it lost a lot of manufacturing jobs 1998-2002, its share was lower and less were lost than in Wales. Nevertheless the situation caused the Scottish Parliament to commission *Scotland's Science Strategy*. This reviewed basic scientific research, costed it, assessed it in relation to world-class benchmarks, and prioritised three fields for which extra resources and attention would be forthcoming. The fields are Biosciences, Medical Science and E-Science. Activities to develop closer networking among public and private research laboratories, to stimulate technology transfer *from* the Scottish health system and to promote a science-based economy were begun.

Regarding the last, the Scottish Executive, then produced an economic strategy document charging Scottish Enterprise and economic actors generally, to espouse their vision of a '*Smart, Successful Scotland*'. This emphasised the need to position Scotland to exploit to the full the Knowledge Economy and proposed actions to: enhance knowledge inputs and outputs among global businesses in or relevant to Scotland; hasten the rate of spin-outs from scientific research; make Scotland's 'talent' base more 'sticky' and augment it by stimulating a more cosmopolitan image.

Briefly, three examples of each are summarised in what follows. First, foreign owned firms now *planning to leave* are targeted to encourage them to replace production jobs with R&D. This has resulted in some success, one reason being that Scotland's science base is excellent, producing 28% of UK biotechnologists and 20% of medical doctors with only 9% of the UK population. Pharmaceuticals firms spend, at 17.5% twice the amount on R&D that other sectors average, hence knowledge linkage around healthcare makes sense. A second example, concerning spinout firms, is the ambition to enhance an already successful cluster programme by establishing new Technology Institutes that will take basic research from universities, patent it as appropriate, transform it into near-market innovations and commercialise it by license, sale or new spinout. Ironically, this was an idea first mooted in Wales but not yet acted upon. In Scotland, three of these in Life Sciences, ICT and Energy are planned. Finally, to enhance knowledge inputs and outputs, an extranet linking the Scottish business diaspora has been constructed, is functioning successfully and will be expanded externally and

adapted as an internal knowledge management system first for all *Scottish Enterprise* staff and then for the Scottish ‘knowledge economy’. A diaspora database is one idea the WDA has emulated, commissioning the Institute of Welsh Affairs to find the expatriates.

### **Post-Devolution Wales: a Developmental State?**

In Wales, building a knowledge economy has proven to be a hard nut to crack. A number of disparate initiatives were launched, variously listed under the enlarged and centralised bureaucracies of the WDA and (until April 2003) ELWa, the WAG’s education and training agency. These emerged as disparate measures, mostly dependent upon the designation of much of north and west Wales, plus the former coalfield in the south, as qualifying for EU Structural Funds Objective 1 status. Not experienced in managing transfers of the £1.2 billion scale plus match-funding that this designation released, the Assembly Government cast around for methods of spending and managing expenditure. Here the *precautionary* principle overwhelmed any pretence at a more *visionary* alternative.

A Task Force to consider a ‘national economic development strategy’ and the Objective 1 Single Programming Document<sup>7</sup> was established to design the financial structure for programme expenditure. The process of drawing up the priorities on which the money was to be spent had been complex and not entirely successful. Participation by representatives of local government, business and the voluntary sector had led to deadlock with the voluntary sector complaining of being out-manoeuvred by the other parties. Accordingly the new First Minister dismantled the administrative machinery set up by his predecessor and handed the task to the civil service. Time was short as the final submission deadline to Brussels was looming, so they simply allocated the funding in the same proportions as it had been divided in the old Objective 2 programmes. Some of the resulting imbalances were raised in the UK Parliament’s Select Committee on

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<sup>7</sup> This was to be the plan for expenditure of monies on specific priorities and measures in light of the broad framework of allowable expenditure set up by Brussels, adjusted according to policy priorities identifiable on the ground. It was the main opportunity to formulate a systematic series of actions based on a clear set of policy priorities for the future economic development of a large part of Wales.

Welsh Affairs investigation into The Structural Funds in Wales, and from the evidence given by the First Minister the above account of administrative expedience emerged<sup>8</sup>.

It is instructive to understand from the First Minister's own words how the *precautionary* reeling-in of this process from an 'inclusive' institutional partnership back into the civil service proceeded:

‘(Mr. Caton)<sup>9</sup> 207. You just mentioned that the Assembly added the financial tables. How did you arrive at the figures for the financial tables in Objective 1?

(Mr. Morgan).....there was not a huge amount of prescription from the Task Force to the Assembly...on that, so basically at the end of the day it was the conventional Minister/civil servant relationship, kind of, ‘What do you think?’ ‘Well, I’ve got to take responsibility for this, so I will come back to you if I get hung, drawn and quartered down in the Assembly over it’ .....Second, we did use consultants to do a bit of sort of feeling out of the European Commission themselves as to what their views on the priorities were. We also took account of the precedents from the Objective 2 and 5b programmes in Wales and we also took some account of alleged success stories in the Irish Republic which we took with a pinch of salt....On the split between the five priorities....let me try out... Hugh here<sup>10</sup>

209. (Mr. Rawlings) ..... I think a point I would want to make is that it is perhaps not surprising that the Task Force did not find it easy to make a clear recommendation on these monies. The Task Force is drawn from a wide range of interests and--

(Mr. Morgan) Vested or otherwise.<sup>11</sup>

For managing the allocation of monies an extremely complex system of interlocking committees was set up, responsible for each programme area, involving Assembly and other government, business, voluntary and academic representatives and experts who were recruited to fill these committees, whose main task was to judge whether grant applications for funding should be approved. At the end of the first year of this process an unofficial estimate was made by a former European Union senior official who had returned to advise the Assembly on this financial absorption and allocation nightmare, that 1,700 people that had been recruited to manage the approval system and support it administratively. Such were the complaints from, particularly, the business community at the glacial progress of implementation of the Objective 1 programme that reforms were instituted, consisting of the insertion of a new layer of committees given a ‘troubleshooting’ function to break the administrative logjams that kept recurring.

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<sup>8</sup> Rhodri Morgan (2000) Minutes of Evidence taken before the Welsh Affairs Committee, Inquiry into European Structural Funds, London, HMSO, p. 40-41.

<sup>9</sup> Martin Caton, Labour MP for Gower, Committee Member

<sup>10</sup> Hugh Rawlings, European Affairs Division, National Assembly for Wales.

<sup>11</sup> Welsh Affairs Committee op. cit. p. 41

From a ‘sensemaking’ perspective<sup>12</sup> it is possible to construct a logic to key policy tools invented to absorb substantial tranches of Objective 1 funding. They fit the EU’s standard ‘innovation push’ view of regional policy. Thus there are tools to promote knowledge transfer, entrepreneurship, venture capital, and incubators – all standard EU fare. This is presumably explicable by reference to the First Minister’s reference to ‘consultants...feeling out...European Commission....priorities’<sup>13</sup>. However, from the timing and way these initiatives were set up it is likely that the precaution to find some things acceptable to the Commission on which to spend Objective 1 money overrode any idea of constructing a modern, joined-up innovation support architecture. Rather, tools are operated and assessed in their own terms. Not surprisingly they have not performed well. On the face of it WAG acting as a developmental state, intervening to guide economy and society towards a specific model of economic modernisation does not seem an acceptable description of reality. However, that it is interventionist and inclined to be precautionary about running everything itself, including direct job-generation in public administration, seems indisputable. The question of whether this can seriously be described as ‘developmental’ is returned to towards the end of this paper.

Formal assessments of performance regarding initiatives such as the Entrepreneurship Action Plan (EAP), Knowledge Exploitation Fund (KEF) and Finance Wales (FW) are seldom published. However, official statistics reported in the *Western Mail* on 16 January showed that for the financial year 2001/02, in return for an average £80 million per year expenditure in its first three years, the EAP was set a target of providing support to 4,600 new business ventures, but in fact only aided 1,800 - a deficit of 2,800. For 2002/3 EAP was set a goal of supporting 6,300 start-up businesses and 4,000 start-ups were assisted by the WDA from April 2002. Such assistance can include fairly trivial telephone inquiries about eligibility. Part of this expenditure is on *entrepreneurship* modules in colleges.

A report on KEF’s own website shows that despite budgets of well over £20 million per year being spent only 5% more entrepreneurship modules were being taught in universities and other higher education institutes, although 25% more were taught in

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<sup>12</sup> K. Weick (1995) *Sensemaking in Organisations*, London, Sage

<sup>13</sup> Welsh Affairs Committee, *ibid.*

further education colleges. But 75% of the latter had no or few mechanisms for technology transfer, while the statistic for universities was 25%. It can be concluded that there is a significant disconnect in this particular part of the entrepreneurship-driven renewal of the regional innovation system in Wales. So much so, that in the disastrous events that saw the demise of ELWa in March 2003, its separation into the Higher Education Funding Council for Wales (HEFCW) and the National Council for Education and Training in Wales (NCET), KEF was transferred to the WDA. Amazingly, it transpired that as well as issuing training-related contracts illegitimately, ELWa had no legal status, being effectively merely a brand name for HEFCW and NCET. The precautionary principle had collided with the ‘public enterprise’ aspiration in a bureaucratic nightmare.<sup>14</sup>

Finance Wales, a vehicle designed to supply venture capital to innovative SMEs and start-up businesses because of a perceived market failure in private provision also registers such disconnects in the far lower than targeted number of businesses coming forward in quest of equity investment. Accordingly, public venture capitalists are redeployed on to firefighting co-funding grant packages. Further administrative expediency and risk aversion has resulted in equity now being tied to accessing Regional Selective Assistance, thus incentivising entrepreneurs to becoming ‘grant junkies’ rather than weaning them off grant-dependence as modern investment theory advocates.

The Technium incubator-building scheme seems equally over-ambitious, with twenty planned to host many more spinoffs that can be legitimately expected to arise from academic entrepreneurship in Wales alone. Programme costs are some £260 million, again funded largely by Objective 1 resources. One Californian flagship technology firm in Swansea’s Technium has folded and a privately-led media Technium in a west Wales rural setting has failed to progress despite large sums of Objective 1 and WDA funding having been allocated. As well as over-ambition there are a set of design flaws in the policy that include, first an inclination to replicate old incubation approaches that failed to prioritise management assistance, including allocating part-time space to such services as venture capital, legal advice and management accountancy. Second, true to WDA traditions they are properties leasing space, now for SMEs previously for FDI

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<sup>14</sup> Martin Shipton (2003) ‘Welsh super-quango to be broken up after auditor questions millions’, *Western Mail*, March 20, p. 9.

businesses, thus they are not in themselves innovative. Finally, they assume 400 or more incubator spaces can be filled. A study of this question calculated that, from academia in Wales, where there are less than one thousand tenured scientists and engineers, some 20 to 30 spinouts could be anticipated during the lifetimes of those academics if international rates of academic entrepreneurship prevailed<sup>15</sup> Clearly, a major ‘recruitment’ effort is required for aspirations to have any chance of being fulfilled, and this at present is not evident as policy or practice.

### **A New Model?**

Thus we come to a hint of a silver lining, surprisingly, in the 67,000 new jobs created from the Welsh Assembly Government’s own block grant. The breakdown between health, education and public administration between June 1999 and June 2002 was 22,000, 18, 000 and 3,000. Both health and education contribute to innovation, the first in patient treatment, and the second in producing talent. But, as services, they are frequently seen as parasitic on the real economy. Research conducted by this Centre for ELWa shows Wales performs a valuable export function for the Welsh economy at university level because, of the roughly 15,000 graduates produced each year by the thirteen higher education institutions, half are from outside Wales. Each is worth, notionally, £15,000 per year to the economy or £112.5 million, which over a typical 3-year degree course is an ‘export’ value of £337.5 million. If to that are added the Welsh students, the figure doubles to £675 million, and adding in the salaries of employees, the sum is over £1 billion, (though the ‘export’ value remains at a third of that).

In 2003, the Welsh healthcare budget is £3.4 billion and healthcare has even greater innovation potential because of the central role of Life Sciences, pharmaceuticals and biotechnology in scientific and technical support of it. In 2002, a Cardiff-based academic consortium won £4 million from the UK government and Welsh Assembly Government (through KEF) to build a Gene Park. Eventually, the Gene Park will be built in Cardiff’s waterfront district linked virtually to other University of Wales biosciences centres. Ambitious plans being realised in 2003 will merge Cardiff

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<sup>15</sup> Dylan Jones-Evans, (2002) *Research & Development in Wales*, Paper to Economic Development Committee, National Assembly for Wales

University and University of Wales Medical School, creating a new institution. In support of the Biosciences capability that underpins the merger, Cardiff University invested substantially in attracting the ‘star’ scientist in stem cell research, Lasker Prize-winning Welshman Martin Evans, and his research team from Cambridge. A new Biosciences Centre has been built to house the new School of Biosciences. An existing Medipark in the medical school houses some thirty biotechnology start-up businesses and these will move as they grow on to the Gene Park. In other words there is the seed crystal of a possible biosciences cluster for which the healthcare demand and the education and research supply are crucial components. Government support in and beyond Wales assisted all features in this development, but mainly through research and infrastructure funding. Augmentation of the pharmaceuticals sector is desirable, given that Amersham and Bayer are the principal global representatives of the sector in Wales since Parke-Davis and Warner Lambert joined the manufacturing exodus years ago. This is a task in which the WDA ought to be the key source of expertise. But in the absence of a ‘knowledge economy’ strategy comparable to that operating in Scotland, as described in the introduction, such a possibility remains unrealised.

## **Conclusions**

While referring to Scotland’s experience of economic development policy experimentation as *visionary* in comparison to that of Wales as *precautionary*, it is clear that more attention has been devoted to the often negative recent experiences of the Welsh Assembly Government’s efforts to restructure the nature of financial support for enterprise and innovation. This is because it is intellectually interesting and important to engage in sensemaking of policy failure as well as policy success. More broadly, the kind of limited devolution Wales received is likely to be more generic if such powers are applied in, for example, English regions. The title proposes ‘varieties of devolution’ not merely as a descriptor but as a possible indication of causes of the disappointing performance of new economic development financing tools in Wales as compared to Scotland. We can draw three conclusions from the foregoing analysis that gives credence to the idea that *fewer* devolved powers may result in weaker policy perspectives than *greater* devolved powers.

Why should this be? First, as was shown in both the analysis of job-generation and in the creation of super-quangos (it is worth noting that the WDA has also grown massively since devolution as new functions like Finance Wales, Business Connect, and now KEF have been handed to it) that to be seen to be doing something, the WAG had so few powers that it could only do two things. The first was to take over direct job-generation activity itself through enlarging public administration employment paid for from the block grant, which it controls. The second, which started sooner and from which the first arises, was to reorganise as much as possible of the inherited administrative apparatus that it controlled. Thus, as well as the dysfunctional super-quango ELWa, now dismantled, the WDA was designated a ‘powerhouse’ by pre-devolution Secretary of State Ron Davies, and is widely understood to have gone through a five-year period of Zen-like introspection that meant it lost profile and effectiveness as internal reorganisation became a permanent feature of its landscape. The same has applied to easily Wales’ biggest public body, the National Health Service, fully reorganised twice since devolution, a task of sufficient complexity that each restructuring takes two years. Thus the NHS in Wales has been in a state of permanent annual reorganisation since devolution, meanwhile performance on waiting lists is weaker than elsewhere in the UK despite per capita health budgets being higher. That such centralising aggrandisement has not ceased is testified to by the WAG’s plan to use Objective 1 money to help create an integrated broadband service for the whole public sector in Wales despite massive technical obstacles and in the misguided belief it will yield ‘best value’<sup>16</sup>

Second, weak and poorly defined powers have meant there is little incentive to seek to be imaginative since it is institutionally depressing to receive bounce-backs from above. This occurred a great deal in the WAG’s early years, especially concerning agricultural policy. This WAG boldly asserted a policy that Wales would be a ‘Sustainable’ economy and society, whatever that meant. Wales was declared to be a Genetically Modified Organism-free zone in 2000 only to discover that the UK agriculture ministry had approved trials in three Welsh locations, and there was nothing Assembly powers could do about it. The drag-effect of Whitehall on Wales’ agriculture minister’s capability to respond rapidly and with good local knowledge to the foot and

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<sup>16</sup> This is the technically-informed view of senior British Telecom management interviewed as part of this ESRC project.



mouth crisis has been mentioned, as has the uncertainty surrounding student tuition fees which Westminster wants raised but Cardiff Bay doesn't. These make for defensive or *precautionary*, even legalistic policy formulation modes from which any spark of creativity is quickly extinguished.

Finally, devolution in Wales attracted few top calibre politicians and even fewer top calibre civil servants. Because of circumscribed powers and the small majority in favour with opposition voices stressing the superfluity of 'yet another layer of bureaucracy' the style of the Assembly itself and particularly the WAG has been conditioned by a local authority mentality. There is great fear of being seen to be 'taken in' by, for example, grand architectural schemes. Most notably, the Assembly still does not have a purpose-built Assembly building because the Finance Minister has, highly questionably, broken the contract with its designer Lord Rogers and, although he humbly re-tendered to re-design his own creation, such are the fears of cost-overruns that it will inevitably cost more and be of worse quality when it is built than if it had been allowed to proceed many years ago, as planned. North Wales constituents were seriously upset at a long delay in approving £20 million in Regional Selective Assistance for the expansion of British Aerospace's Flintshire facility to build wings for the new Super-Airbus. So, even where discretion is allowed by the rules of devolution, the WAG management style can give an appearance of being highly *precautionary*, not to say timid in its decision making. Thus far *Carpe Diem* has not become the watchword of the Welsh Assembly.

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