LYNN MAINWARING

BRITAIN'S NORTH AND SOUTH AND THE WORLD'S NORTH AND SOUTH OR WHY IS MID GLAMORGAN POORER THAN SINGAPORE?

University of Wales Swansea

Britain's North and South and the World's North and South or Why is Mid Glamorgan poorer than Singapore?

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Lynn Mainwaring

Britain's North and South

I am sure that everyone present is familiar with the idea of a North-South divide within the United Kingdom. The concept has been an important element of economic, social and political debate for some decades. In most accounts, the divide runs roughly from the Severn estuary to the Humber. In terms of standard statistical regions, this places the South East, East Anglia and the South West below the line; the North, the North-West, Yorkshire and Humberside, and the Celtic Fringe above. There may be some doubt as to where the Midlands belong, but the East Midlands has the stronger claim to "Southern-ness".

The manifestations of the divide are fairly straightforward. Typically, regions to the North have: i) lower per capita GDPs - roughly speaking, they produce a lower value of goods and services; ii) lower household or personal incomes; iii) lower activity rates - that is, a smaller proportion of the potential workforce is actively seeking work; and iv) lower employment rates (or higher unemployment rates).

The reasons why these symptoms come to be manifest in the post-War period are also well-known:

To the North and West, urban concentrations are closely connected with the existence of coalfields which either gave rise to or else perpetuated traditional industries like steel-making, shipbuilding and textiles. The virtual disappearance of these industries, at least in terms of employment, can be ascribed to a variety of factors. Government policy towards energy has virtually wiped out the coal industry; technological change and world overcapacity have, between them, taken a heavy toll on jobs in steel and shipbuilding; and the growth of textile production in less developed countries has gradually eroded the domestic industry despite severe restrictions on textile imports. Increasing restraints on agricultural subsidies have also been badly felt north of the Severn-Humber line, where farmers have had to struggle on poorer quality lands.

The economy of Britain's South and East has traditionally been more diversified. The inclusion of London (which is a financial as well as a government capital), and a high concentration of defence establishments (which claim a huge proportion of Britain's research and development (R&D) expenditure), have helped to create within these regions a large pool of highly-trained workers. This assembly of skilled workers has gone hand-in-hand with the creation of an economic infrastructure which, like skills, not only services existing needs but, because of its "externality" properties, acts as an attraction for further development.

This externality property of infrastructure and skilled labour supplies cannot be overstated. A firm which invests in training cannot be sure that the benefits of that training remain internal to the firm. Workers, whether in manufacturing, financial services or government departments, are not contracted to their employers for life but are available, via the labour market, to new employers. Firms needing particular skills will find it more attractive to set up in an area where they already exist, rather than have to start from scratch elsewhere. Likewise with infrastructure. Roads, railways, international airports, telecommunications networks and research institutions have developed to satisfy existing needs but, so long as they remain uncongested, their very existence acts as a magnet for further development. When a component of infrastructure becomes congested it will be supplemented by new capacity. But because such investments are, of their nature, "lumpy" the externality property is restored and more activity is attracted until congestion is renewed.

What these considerations point to is the cumulative and, to a degree, irreversible nature of regional development, a process which Gunnar Myrdal (1971) years ago called

"cumulative causation". For the mathematically inclined, that is another (perhaps more descriptive) name for positive feedback. Skills and infrastructure attract new firms which generate new skills and improved infrastructure, and so on. In order to overcome these "natural" cumulative forces toward regional divergence some active intervention on the part of central government would seem to be needed. That is something I shall return to later.

I do not wish to imply that the Severn-Humber line is anything more than an approximation. Recent research has shown that there are significant pockets of prosperity in the North and of poverty in the South. But at a regional level the differences are clear. Nor do I wish to argue that the dividing line is permanent. In the 1970s many would have placed the Midlands firmly in the South. With the viscious onslaught on manufacturing in the early 1980s the Midlands suffered badly and took on somewhat "Northern" characteristics which they have only recently begun to shed.

But even if the dividing line is approximate, even if it is fickle, "Northern-ness" and "Southern-ness" are still valid concepts - they still describe regional economies which display the kinds of symptoms we have just considered. And one point which I shall argue forcibly a little later is that, whatever the fluctuations in the fortunes of the Midlands, Wales (taken as a whole) remains firmly in the Northern camp - this despite many of the claims of Welsh success being made by those with a vested interest in promoting that view.

The World's North and South

If the North-South divide in Britain is a familiar concept, the global division into North and South is only a little less so. 1980 saw the publication of the "Brandt Report" (named after the former German Chancellor), properly titled North-South: A Program for Survival (Brandt, 1980). The cover design for the Report was a map illustrating the perceived division. Allowing for a little cartographic licence - a "wiggle" to draw Australia and New

Zealand to the North - above the line are the rich, industrialised countries of the temperate zones; below are the poor, mainly primary-producing countries of the tropics. This rich/poor distinction is, of course, an inversion of Britain's North and South.

The causes of the global divide are partly geographical - the fact that the Southern countries are, comparatively, well endowed with natural resources - and (perhaps more fundamentally) historical and political - the fact that the industrial revolution began in the North and first spread throughout the North, and the fact that colonialism perpetuated a world division of labour in which colonies were given the role of "hewers of wood and drawers of water" on behalf of the colonial powers.

At the time of the Brandt Report, the connections between the divided world and the divided Britain may well have been tenuous. Is there anything to suggest that the forces that sustained global separation or, for that matter, the forces making for global integration, were in any way responsible for segmenting the British economy in the early post-war period? The status of the British North, I have just argued, was traceable largely to the geographical accident of coal. But, we have also seen that the textile industries of the industrial countries have come under sustained pressure from attempts by the less developed countries to begin a process of industrialisation by establishing an industry in which access to advanced technology and skills are not pre-requisites. This early attempt by the world's South to take a step in the direction of the North was a precursor to a significant process which, as it broadened to encompass other industries, simultaneously narrowed in its geographical scope. For, just as Britain's North-South divide has manifested a degree of fickleness, so has the global division.

The mutability of the global dividing line has been highlighted by the phenomenal growth of the "newly industrialising countries" - or NICs. Some people include Latin American countries like Mexico, Brazil and Argentina among the NICs and, despite some

recent tailing off of growth in these countries, they have done better than some of their neighbours and considerably better than the vast bulk of African countries. But the truly exceptional growth rates are to be found in S.E. Asia, with four countries outshining the others. These so-called "Tigers" are Hong Kong, Singapore, Taiwan and S.Korea.

The explosive growth of Southern manufacturing is illustrated in Fig.1 which shows the value (in $1980) of manufacturing exports from the South to the North. Between 1960 and 1990, they grew from about $10bn to over $200bn. Over sixty per cent of current manufacturing exports from the South is accounted for by 13 countries. If textiles were removed form the picture, the dominance of a small group of countries would become even more marked. The Asian Tigers have registered annual export growth rates in the region of 15 per cent over this period.

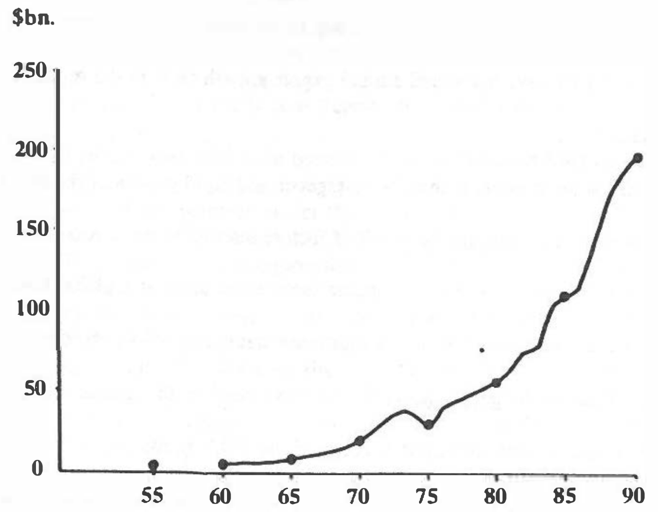
The first thing that I want to argue is that the emergence and rapid growth of the NICs were not accidental. Nor were they <u>entirely</u> the result of factors internal to these economies. They need, instead, to be explained in terms of dynamic factors operating at a global level. Secondly, I shall argue that the revision of global North/South status implied by the creation of the NICs has a direct effect on the <u>perpetuation</u> of "Northern-ness" in the British context. That is to say, the very presence and continued success of the NICs is making it, at least under present government policies, very difficult for Britain's Northern regions to escape from their historically endowed status and to counter the forces of cumulative causation and cumulative divergence. I shall illustrate the point by considering the specific example of Wales - possibly the most "Northern" (in a conceptual sense) of Britain's Northern regions.

<u>The Growth of the NICs</u>

The NICs appeared as a recognisable phenomenon in the 1960s. The reason why the South, or some part of the South, suddenly began to develop a significant presence in the

Figure 1

Exports of Manufactures from South to North (after Wood, 1994)



production and export of a range of manufactured goods is, as we shall see in a moment, open to dispute. Whatever the reason why industrialisation began, the reasons why it occurred primarily in the NICs rather than other Southern economies, is a matter on which there is more agreement.

The NICs share some general characteristics. Many are countries with a poor natural resource base and which therefore had more incentive than others to develop a manufacturing sector. Many had regimes which were able to impose whatever degree of political repression they deemed necessary to provide a favourable environment for multinational firms or for investors in general. Many had, for various historical and cultural reasons, comparatively good literacy rates, general educational standards and social infrastructures. And, at least in the case of the S.E. Asian NICs, there were common geopolitical features. Hong Kong and Singapore were of historical strategic interest to Britain; S.Korea and Taiwan were, during this period of intensely Cold War, of political importance to the USA.

The NICs were for a variety of reasons, then, the chosen few. But how did industrialisation come about? And why at this particular time?

One of the important contributions to this literature is the book North-South Trade, Employment and Inequality by Adrian Wood of the Institute of Development Studies at the University of Sussex (Wood, 1994). This is an impressive work and if I should appear critical of Wood this is simply because it is easier and, in a general sense, more productive to concentrate on points of disagreement. One part of Wood's argument is that the stimulus to the breakdown of the South's traditional role of primary producer was the growing liberalisation of world trade in the post-War period. Under the auspices of the GATT (the General Agreement on Tariffs and Trade), the major world economies have been engaged in a series of "rounds" of negotiations aimed at reducing tariffs on a multilateral basis. These negotiations began in Geneva in 1947 and have included the so-called "Kennedy" and

"Tokyo" rounds of the 1960s and 1970s which were especially productive in bringing down tariff barriers and stimulating world trade. Wood is of the opinion that this process of trade liberalisation allowed the NICs to take advantage of their endowments of low- and semi-skilled labour to get a toe-hold in global manufacturing.

Against this argument is the view, expressed among others by Wood's colleague at IDS, Manfred Bienefeld (1982), that the post-War process of trade liberalisation has been very selective, promoting mainly trade between the rich countries rather than trade between rich and poor. Many of the claimed benefits of the GATT rounds for the South were illusory. Kennedy and Tokyo, like all the other rounds before the most recent (Uruguay) round were concerned only with the reduction of tariff barriers and did not address the important issue of non-tariff barriers to trade, such as regulations which limit the volume or value of imported goods. There is much evidence to suggest that as the rich countries were busy reducing tariffs on imports from poor countries they were just as quickly inventing and erecting non-tariff barriers to take their place. If that is so, then the argument that a general process of trade liberalisation was responsible for the emergence of the NICs loses much of its force.

Moreover, even if one concedes that the balance of forces favoured liberalisation over protection, this was not a <u>general</u> process of potential benefit to the whole South. In the 1960s the USA and Britain were suffering (as they still are) intense competition from Japan and Germany. High wage <u>costs</u> (meaning high wage <u>rates</u> relative to labour productivity) were responsible for the sluggish UK and US performance. For British and American firms the low-wage, plentiful-labour economies of S.E. Asia, with their historical and ideological connections, offered a means of escaping from the pressures of their domestic labour markets. Given the strategic sensitivity of these locations, British and American governments were prepared to support this strategy, against their otherwise protectionist instincts, by offering very selective liberalisation measures to the favoured countries.

At this point I should perhaps declare an interest. In my own theoretical approach to the question of NIC-formation (eg., Mainwaring, 1993) it has seemed to be most sensible to characterise the emergence of the NICs as a response to growing wage pressures in the North due to the prolonged period of post-War prosperity and accompanying full employment. Some countries, like Germany and Japan, were better able to accommodate these pressures because of faster productivity growth. But, as Bienefeld has pointed out, Britain and America were not. These pressures began to be manifest in the 1960s with the emergence, for the first time in the post-War period, of inflation. It seems to me that the onset of inflation and the establishment by Northern firms of manufacturing facilities in the South is more than mere coincidence. If it were contended that the trade liberalisation process which was also occurring about this time was more than mere coincidence, I should agree. In accordance with Bienefeld's observations, I should say that liberalisation, like inflation, was a <u>symptom</u> of labour market pressures in the North, rather than a process happening for wholly independent reasons.

It must be said that Adrian Wood does recognise the argument that wage pressures might have been responsible for NIC-formation. The reason why he dismisses it is that he believes it to be inconsistent with the subsequent re-emergence of unemployment in the North, particularly in the 1980s. His view is that if investment in Southern manufacturing is driven by Northern labour markets then the process would presumably have gone into reverse when the pressures of demand in those markets slackened. My view is that this argument does not give proper weight to the cumulative and irreversible nature of the changes that were initiated in the 1960s. Not only that, I shall also argue that the very changes occurring in the NICs are in considerable part, responsible for the re-emergence of unemployment in the North.

<u>Learning, Infrastructure and Production</u>

First it is necessary to say something about the nature of early manufacturing investment in the NICs. The types of investment would appear, in general, to be consistent with those predicted by Raymond Vernon's theory of the Product Cycle (Vernon, 1966). According to Vernon, products typically pass through a life-cycle, beginning with R&D, then innovation (i.e., the introduction of a novel but commercially viable product), followed by a phase of improvement or maturation, and ending with standardisation or, perhaps, obsolescence. In the early stages of this cycle firms require inputs of highly skilled labour including scientists and technologists; they may, indeed, need support from universities or other public research institutions. They will also need to operate within well-developed social infrastructures involving rapid and high-quality transmission of information to and from potential suppliers, customers, government agencies, and so on. They will need access to sophisticated capital markets that are able to assess the pay-offs to high-risk ventures, and to providers of a host of complex services. For these reasons, R&D, innovation and at least part of the maturation stage of the product cycle need to take place in already developed countries.

In the production of standardised products, skill and infrastructure requirements, though not absent are of less importance. As one moves along the product cycle towards the routine assembly of well-understood products using well-understood technologies, wage costs come to assume greater significance. In the 1960s, the NICs were able to offer low wages allied to a labour force possessing some basic skills, such as literacy and workforce discipline, together with infrastructures which, though poor by developed-country standards, were superior to much of what was available in the rest of the South. And, of course, they offered accommodating political climates.

The toe-hold they gained in manufacturing was, therefore, explicitly a toe-hold in standardised, low-skill manufacturing - not merely the ubiquitous textile industry, but the assembly and mass-production of a wide range of consumer goods.

The technology of mass production does not depend in any significant way on its global location. A multinational can set up a factory for producing transistor radios in Wales or Taiwan and the factory would be pretty much the same whichever location were chosen. The availability of standardised productions technology is thus not a factor contributing to national differences in production costs. The factors that do make a difference are: the infrastructures in which the technologies are embedded; the skills which are needed to complement the technologies; and wages.

Thus the continued survival, without some form of protection, of standardised processes in the North, in competition with the emerging NICs, implied a critical equation of Northern and Southern costs:

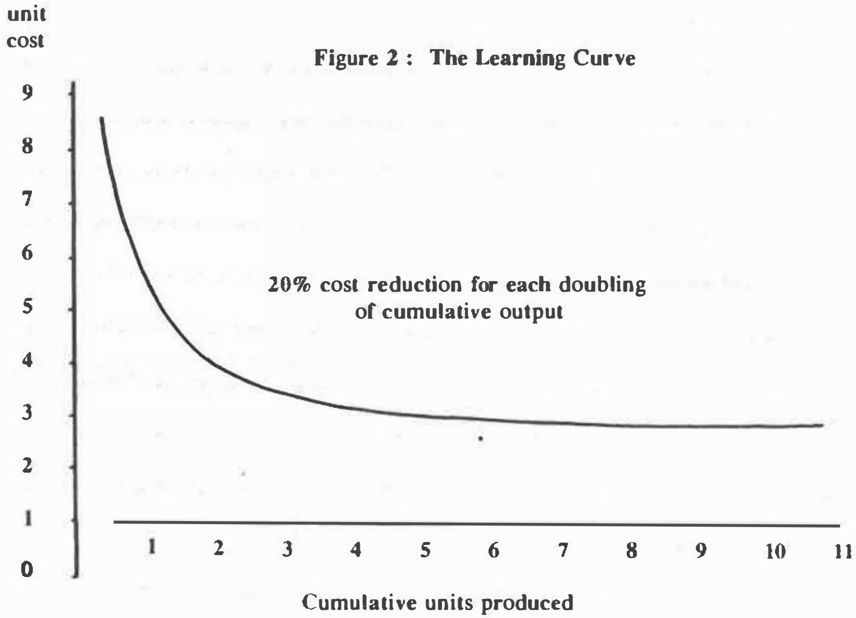
Northern Costs (Wage Rates, Infrastructures, Skills)
[High] [Good] [High]

= Southern Costs (Wage Rates, Infrastructures, Skills)
[Low] [Poor] [Low]

What this equation says is that the South's wage-cost advantage was just balanced by its infrastructural inadequacies (even for standardised production) and its lack of industrial skills.

Let us begin with skills. The important characteristic of skills is that they develop rapidly as a result of experience. Experience in turn is the consequence of learning and learning, is a very powerful process. Its effects are sometimes quantified in terms of a "learning curve" (see Fig.2) which shows how cost per unit of output falls as the cumulative number of units produced rises. This, more precisely, is the process known as "learning by doing" or what is sometimes called the "Horndal" effect, after the first clearly documented case. (The Swedish Horndal steelworks was built in 1836 and remained unchanged and with the same workforce for fifteen years, despite which output rose on average by 2 per cent per year). In addition to learning by doing the NICs were also able to learn by imitation.

Figure 2 : The Learning Curve



The importance of learning is that once production becomes established in the NICs, the cost equation very quickly becomes unbalanced. As can be seen from the shape of the typical learning curve, to the already experienced the gains from further experience are limited; to the novice, they are very large. The NICs were therefore able to move quickly towards "best practice" techniques of standardised production, as represented by the North, and - provided they were able to sustain their wage-cost advantage - that meant they were able quickly to out-compete the North in these kinds of products.

If learning within standardised production were all there was to it, eventually the NICs would capture the bulk of global low-tech, low-skill production but make no further progress. Only insofar as the skills and experience they acquire at this level can be applied to higher stages of the product cycle would learning help these countries move beyond the standardisation stage. But we must also recall the other element in the cost equation: infrastructure. When we talked of the infrastructure advantages of the S.E. of England compared to Britain's northern regions, we noted that infrastructure has a double characteristic. Even where it is supplied to satisfy the needs of existing users, it typically functions as an attraction to other users: a telephone network, once in place, can be accessed by new subscribers at very little cost.

An infrastructure established to meet the needs of standardised manufacturing is unlikely to be adequate to the needs of research-oriented or innovative producers. But in combination with relatively low wages and a labour force gradually deepening and broadening its skills through learning, it will help to attract investments at a slightly higher and more sophisticated stage of the product cycle. Once manufacturing for the world market has begun, learning and infrastructure accumulation are the motors by which countries develop, i.e., become industrially more sophisticated. As the process becomes consolidated, the benefits from such development can be passed on to workers in the form of higher wages.

The Case of Singapore

The process can be illustrated by the case of Singapore. By good fortune an article has just appeared in a recent issue of the J.Development Studies by Mike Hobday of the Science Policy Research Unit at Sussex, entitled "Technological Learning in Singapore" (Hobday, 1994). I shall rely heavily on Hobday for the following facts. It is worth bearing in mind throughout that Singapore has a population of just under 3 million which is almost identical to that of Wales.

Singapore achieved self-government in 1959 and immediately set about a programme of training and infrastructure development with the aim of attracting multinational firms. By 1990 some 3,000 such firms were operating in the economy, mainly from W.Europe, USA and Japan. The training has focused on technology and engineering. According to Hobday, its two universities (including a dedicated technological university) and its polytechnics supply to the economy some 22,000 newly trained engineers each year, possibly the highest rate in the world.

Over time, the government has deliberately tried to push manufacturing towards the superior end of the product cycle, especially towards R&D. With that aim in mind it has created technology support institutions including: "the Institute of Manufacturing Technology; the Institute of Systems Science; the Institute of Microelectronics; [and] the Magnetics Technology Institute" (Hobday, p.834). The purpose of these investments is "to lift the economy on to a higher plane of research-intensive, high value-added activities during the 1990s" (p.835). What is particularly interesting is that the government is actively engaged in shedding low-wage labour-intensive production of standardised goods to welcoming neighbouring economies, Malaysia and Indonesia, which may be regarded as "second-tier" NICs. The objective is to try to retain, as much as possible, only higher-wage activities in

Singapore.

This is a very important point: for the Singapore government the objective of economic policy appears to be a high-wage economy. The means to that objective are training and infrastructural developments that attract high-quality jobs. Later, I shall compare this policy agenda to that of Britain, where the reduction of wages is the means to the creation of low-quality jobs.

What has been the pay-off to Singapore of pursuing this strategy? The simple answer is a very rapid growth in per capita incomes. Thus, between 1965 and 1985 when the UK's GNP per capita grew at 1.6 per cent p.a., Singapore's grew at 7.6 per cent. The extent of Singapore's progress first became clear to me when, about three years ago, I read a newspaper report that per capita income in Mid Glamorgan had fallen below that of this East Asian country. Although I was aware of the latter's rapid growth performance I was still shocked that a significant part of the Welsh economy could be compared to what I still, then, thought of as a less-developed country.

The fact is that the comparison was really rather flattering to Mid Glamorgan, since it was based on a calculation whereby incomes are converted at average exchange rates. Because exchange rates are influenced by "non-fundamental" factors like speculative activity, this introduces a distortion. A more satisfactory method is to compare living standards directly by means of a "purchasing power" comparison. Calculations by the World Bank for 1992 show that, in purchasing-power terms, incomes in Singapore are almost identical to those for the UK, as a whole, and consequently well above (maybe by as much as 14 per cent) those for Wales as a whole, and yet greater (possibly by 30 per cent) than in Mid Glamorgan.

The NICs and the South

The experience of Singapore is replicated, with variations on the theme, by the other Asian Tigers. What implications does it have for the rest of the world? First, we should say a word about the rest of the South.

When they began industrialising, the NICs had some initial advantages over the rest of the South. But learning and infrastructure creation are, by and large, cumulative processes which are difficult to reverse and difficult to overcome. For other Southern countries it is no longer a question of reaching the same stage as the NICs were at in 1960; for the NICs have since raced ahead even in the most standardised stages of production. The process of new-NIC formation depends on the established NICs being able, or being forced by their very success in raising wages, to shed the more basic levels of manufacturing. Thus, a number of second-tier NICs are, as we have seen, emerging: countries like Malaysia, Indonesia and Thailand. But global demands for basic commodities are limited and, as each new NIC leaves the starting block, the more difficult it becomes for other countries to enter the race. These other countries cannot simply "leap over" the standardised stage to more sophisticated stages of production where there may be fewer competitors, since they don't have the skills or infrastructures to manage the first stage. The longer they are left out of the industrialising process, the harder they will find it to get started. If that is so, then the view still current in some parts of the World Bank, that the NICs provide a development model than can be emulated by the majority of less developed countries, is simply untenable.

The NICs and the North

Of more direct concern to us is the consequence of the success of the NICs for the global North.

We observed earlier, in terms of the "cost equation" that, at the time of their emergence, the NICs and the North would have been more or less neck-and-neck in terms of

competitiveness in standardised manufacturing. But the cumulative processes of infrastructure formation and learning would give the NICs a growing advantage in this stage of production. The impact of NIC-creation would thus be felt most by those workers in the North who are also engaged in the more standardised end of the product cycle - by and large, low-skill workers. Those engaged in the superior stages of production would, at least to begin with, remain relatively insulated from these effects.

For low-skill workers, one possibility would be to remain in competition, and hence in employment, by accepting lower wages. To the extent that wage cuts are resisted, unemployment would be the price paid. There does, in fact, appear to be a degree of "real-wage resistance" in many Northern economies; i.e., an unwillingness to accept significant wage cuts even in the face of unemployment. As a result, the weakening fortunes of the North's low-skill workers have been manifested both in falling relative wages and in rising unemployment.

In his excellent exploration of these issues, Adrian Wood estimates that between 1960 and 1990 the aggregate effect of the South's emergence into manufacturing was to switch about 20 million jobs from the North to the South - that is, roughly, the equivalent of three-quarters of the entire UK workforce.

The differential impact of these effects on skilled and unskilled workers has contributed to the observed increase in social inequality that has been documented, for example, by my former colleague, Prof. Stephen Jenkins (Jenkins, 1994). This growth in the number of poor people at the same time as the growth in the numbers of very wealthy surely has some part to play in the various manifestations of social break-down that we are all familiar with.

The question I now wish to address is the extent to which this widening of skill-related differentials has a spatial or, more precisely, a regional manifestation in the global

North. If we take the North as a whole, for example, we could ask: To what extent is it responsible for the lack-lustre performance of the British economy as compared to that of Germany, Japan, and many others, over the last thirty years. There is, indeed much evidence that the supply of skills to British industry and the quality of infrastructure are inadequate compared to those available to our main competitors. For the most part, however, I wish to take a more parochial view and narrow the focus to within Britain, and ask: To what extent are these global dynamics responsible for the continued division between Britain's North and South? Indeed, I shall very quickly become yet more parochial and concentrate my gaze on that quintessential "Northern" region - Wales.

Regional Inequality in Britain

The NICs did not, of course, create a North-South division within Britain. That has long existed. The Northern regions have suffered from a structural imbalance of their economies, due to dependence on a narrow industrial base. But mining, steel and shipbuilding did at least provide workers (mostly male workers it must be said) with skilled jobs and relatively high wages. Although the NICs emerged in the 1960s, their explosive growth occurred in the 1980s, just at a time when the traditional industries at home were being battered by hostile political forces in combination with technological and structural change.

Workers who were skilled in their own traditional contexts found that these skills were not transferable to the wider world of manufacturing. The electronics of the coal-face, for example, bore scant relation to the electronics of the printed circuit board; less still to the silicon wafer. Former coal and steel workers found themselves in direct competition with the mass producers of S. Korea, Taiwan and elsewhere; and the Northern regions of Britain in direct competition with those countries for the employment favours of multinational firms.

Some of you may recall the recent decision of the London Rubber Company to switch production of surgical gloves from Llanelli to Malaysia.

The response of the British government to the crisis of unemployment has been to compete in the global game of attracting footloose investment by offering cash subsidies or other inducements, while simultaneously "freeing up" the labour market. "Freeing up" is, of course, a euphemism for reducing real wages, an objective attained by the weakening of social safety nets, the abandonment of minimum-wage controls and the undermining of trade unions. In its own terms, this policy has met with some success as the announcement, last month, that the giant S. Korean firm Samsung is planning to create over 4,000 jobs in the N.E. of England, attests.

It is worth, though, pondering on the reasons why Samsung and many other multinationals decide to locate in Britain. The main reason is to get round the trade barriers, mainly of a non-tariff variety, that are erected round the European Union. These barriers are aimed at restricting direct imports in order to protect domestic industries and domestic jobs. Thus firms like Samsung are forced to produce their goods within the Union rather than S. Korea. But there are many regions within Europe that would like this kind of investment, not least relatively low-income countries like Greece, Portugal and Spain. Governments are thus engaged in a competitive game of throwing money at would-be investors while simultaneously trying to convince them that their costs of production are lower than everyone else's. In this respect, the British government has stolen a march on its European competitors by opting out of the social provisions of the Maastricht agreement.

It may give us pause for thought that the huge S. Korean multinationals, Samsung and Hyundai are retaining their R&D facilities in S. Korea but devolving their routine production processes to places like Britain. It would appear that for the British government the objective of policy is low-quality jobs; and the means, low-wage labour. This, you may recall, is the complete inverse of the policy of Singapore (and, I would suggest, of the other Asian NICs) of high wages via high-quality jobs. Not only is the strategy itself questionable, it is also doubtful if it is sustainable, despite the social chapter opt-out, given the desire of many European Union governments to extend trade liberalisation to the countries of Eastern Europe where wage costs are far below those of Britain.

Wales has proved something of a laboratory for these policies, its low wage costs being a selling point in the battle to attract investors. Again, on its own terms, the strategy has been remarkably successful, with Wales receiving much more than its proportionate share of inward investments, and the jobs gained are certainly better than no jobs at all. The question remains: Is this a viable development strategy - where "development" is understood to imply "progress". Is it, in other words, a way of bringing Wales (and the rest of the North) into line with the South of England? Or is it a strategy that will merely perpetuate and aggravate the British North-South division and condemn Wales to a downward path at a time when the NICs are marching upward?

Relative Decline of the Welsh Economy

To shed some light on these questions, we need to consider the performance of the Welsh economy, over the last fifteen years or so, relative to Britain as a whole or, better still, relative to the south east of England. Naturally, Wales starts at something of a disadvantage because some 60,000 jobs have been lost in the two traditional industries, steel and coal. It is in response to this enormous decline in traditional employment that the Government and its agencies have been working hard trying to create new jobs by attracting inward investors.

My argument is simply that the decline of coal and steel has left a Welsh manufacturing workforce largely bereft of the kinds of skills one typically finds in more dynamic regions. This, in combination with the infrastructural inadequacies of the Welsh

economy, means that investors will be attracted to Wales only if they can be compensated for these inadequacies by lower wages. Unskilled workers not prepared to accept lower wages will find themselves without jobs. If this is so, we should expect to observe either an increasing wage differential between Wales and the South of England, or an increasing differential in employment opportunities, or both. In any case, whatever the relative trends in wages and employment taken individually, together they should imply a widening gap between incomes in Wales and the more successful regions.

Let us, then, turn to the evidence, beginning with wages. Over the period 1981-93, average earnings of full-time employees in Wales fell from about 96 per cent of the British average to about 88 per cent (Fig.3). For comparison, those in the South East went up fortn 108 per cent to 115 per cent. There is some evidence that the downward slide has been halted in the last couple of years but this may simply be to do with the way cyclical factors impinge differently on different regions. From the longer-run perspective the trend is unmistakable.

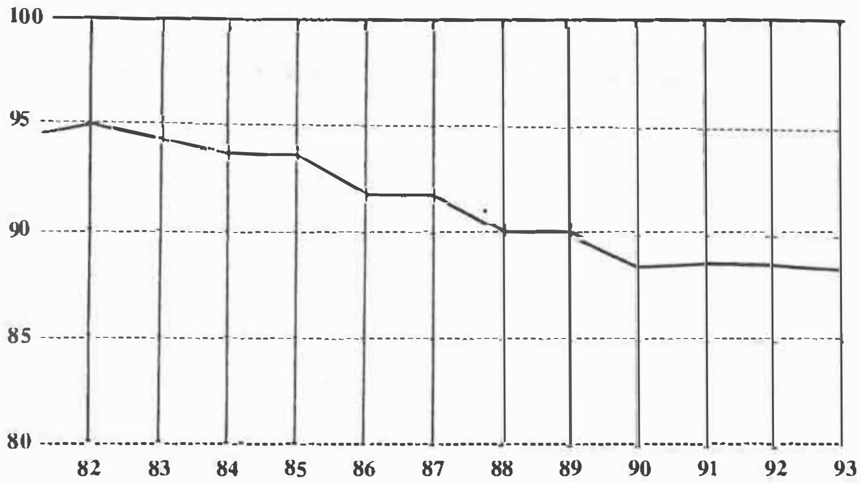
Of course, it could be argued that the lower level of Welsh earnings (which are reported in money terms) exaggerates the differences in real rewards, i.e., in rewards that take account of differences in the cost of living, especially the cost of housing. This is a question that has been addressed by my colleagues, David Blackaby, Phil Murphy and Nigel O'Leary (1993). It is true that comparing workers of the same skill type in Wales and elsewhere, the money-wage difference exceeds the difference in real wages, as we might suspect. But even when allowance is made for this, there remains a substantial difference in earnings which my colleagues explain in terms of different occupational structures, and which they attribute quite emphatically to the poverty of the skill base in Wales.

The evidence on wages, then, is fairly clear-cut. What about employment? Here the picture is more confusing. Over this same period the percentage gap between the Welsh

Figure 3

Average Gross Weekly Earnings of Full-Time Employees in Wales

GB = 100



unemployment rate and that for Britain as a whole has narrowed. Presently, the Welsh rate is, for the first time in decades, lower (if only slightly) than the British rate. We must, however, be careful not to presume that unemployment rates are a full and accurate reflection of job opportunities.

Measured unemployment rates refer only to those who are economically active, i.e., registered as seeking work. It is well-known that people whose job prospects are bleak tend to be discouraged from seeking work and fail to register as active. The proportion of the potential workforce seeking work is known as the activity rate. Wales has the lowest activity rate of all the statistical regions of Great Britain. The difference, moreover, is getting bigger and is projected to carry on getting bigger. During the 1980s, the male activity rate in Wales fell by about 5 per cent, compared to a 2 per cent drop for Britain as a whole, and zero change for the South East. On the other hand, female rates throughout Britain have risen, though, again, faster elsewhere than in Wales.

This brings us to the second point. Although the activity rate of Welsh females lags behind that for Britain as a whole, the changes over the last 15 years have been such that the proportion of total employment accounted for by part-time female employment has increased faster in Wales than in the rest of Britain. Almost a quarter of Welsh jobs are now accounted by women working part-time. From the point of view of individual women the increasing opportunity to engage in part-time work may be very welcome but, form a wider perspective, the substitution of full-time by part-time employment is very worrying. Since part-time jobs are overwhelmingly low-skill jobs, this substitution is symptomatic of a de-skilling of the workforce. Part-time jobs, it goes without saying, deliver part-time wages. Despite that, the unemployment figures do not identify or allow for the degree of part-time working.

Between them, wage levels and employment hours determine wage incomes and these are a major component of total incomes. Thus, for further evidence on the relative decline of the Welsh economy we might turn to statistics on income. There are several measures we could choose but they all tell much the same story: Wales lags well behind the rest of Britain. Just to illustrate, consider the ratio of Welsh personal disposable income per capita to that in the South East. In 1979 this stood at 85 per cent; by 1992 it had fallen to 76 per cent.

Since Mid Glamorgan has been given pride of place in the title of this lecture, it must be appropriate to mention that household income in that county is about two thirds of the level in the South East. Not only is Mid Glamorgan poorer than Singapore, by a long way, it is, indeed, the poorest county in Great Britain; poorer even than Northern Ireland.

What we have just been looking at are manifestations of the low-skill economy, but we could look for more direct evidence. Then we should find, for example, that a much lower proportion of the Welsh workforce has a higher-educational qualification, a much higher proportion has no formal qualification at all. We should find that a much lower proportion of Welsh firms undertake R&D. (This is particularly noticeable among inward investors. A recent study of Japanese firms in Wales (Morris, *et al*, 1993) showed that only two of the 23 companies surveyed have established substantial R&D units). Many other snippets of evidence of this sort could be presented. Equally, we could assemble evidence on the paucity of Welsh infrastructure: the weak availability of professional services, for example; or the failure to electrify railway lines into Wales and create a direct link to the Channel Tunnel.

Promoting Convergence

This is a dismal account. But, you may say, what else can be expected of a region which has suffered so dramatic a loss of traditional jobs? That is a fair question, but it begs another, more fundamental, namely: what is the appropriate policy response to this situation?

The strategy of attracting inward investment may have been expedient in the early 1980s when jobs were being lost at a very rapid rate. But unless there is a commensurate effort to raise the quality of the workforce and to improve infrastructure, the continued "success" of this strategy (in terms of pure job creation) is dependent on an increasing
impoverishment
~~improvement~~ of that same workforce. For only in that way will it be possible to compete, not so much with the original NICs, who by now are forging ahead, but with the second-tier NICs of S.E. Asia and with the low-wage economies of Southern and Eastern Europe who are staking a claim to the investments of those multinationals who need to service the European market from within.

The British government's response to the problems of its own North has been to undermine the strength of workers and to bring down their living standards at the very time when workers in the NICs have accumulated new skills and commanded higher wages. Minimum wages and the provisions of the "Social Chapter" do not fit with current policy. But they do force firms to take seriously the quality of their workers by investing in training. Together with a serious public commitment to improving skills and infrastructure, they provide a viable strategy for the proper regeneration of Britain's peripheral economies.

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