

## **Recession and recovery: The Welsh Office and job creation in the 1980s.**

The 1980s are remembered as difficult times for much of Wales, when the economy was subject to dramatic shocks, including the closure of almost the entire deep coal mine industry as well as enormous job losses in manufacturing and steel. While the Welsh Office's role in job creation, especially its focus on inward investment, has been discussed in the literature,<sup>1</sup> a narrative often remains in contemporary Wales that it was left almost undefended against the economic and political forces symbolised by Margaret Thatcher. Although the economy suffered greatly in the early to mid-1980s, largely as a result of central government policies, the activities of the Welsh Office<sup>2</sup> and its agencies in seeking to create jobs are often overlooked.

The complexities of administrative devolution meant that economic policies were largely controlled by central government, the Welsh Office, or by a gradually evolving combination. However, the Welsh Office's powers were limited. It had no influence over fiscal and monetary issues such as interest rates and taxation, nor the level of government expenditure. As well as these, decisions on the nationalised steel and coal industries were also taken by central government. Despite these limitations, the actively interventionist John Morris, Labour's Secretary of State for Wales between 1974 and 1979, had put in place powerful economic development agencies that enabled the Welsh Office to intervene. It was these that

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<sup>1</sup> Martin Johnes, *Wales since 1939* (Manchester: Manchester University Press, 2012), p. 318; John Davies, *A History of Wales* (London: Penguin, 2007), pp. 690-691.

<sup>2</sup> The Welsh Office was a government department established in 1964. It was controlled by a cabinet minister known as the Secretary of State for Wales who was assisted by two junior ministers. It gradually accrued powers, although fiscal and monetary powers remained centralised, as did those over nationalised industries.

were used effectively throughout the 1980s by Conservative Secretaries of State. This article aims to include such activities in historical debate, as well as explaining the constraints on Welsh Office activity. It argues that while central government's policies changed dramatically in 1979 to the immediate detriment of the Welsh economy, the Secretaries of State for Wales (Nicholas Edwards between 1979 and 1987, Peter Walker between 1987 and 1990) ensured that the Welsh Office remained an actively interventionist body that used all of its limited powers and resources to offset the impact of economic turbulence.

Wales' economic problems did not start in 1979. After the Second World War, memories of the great depression spurred the creation of a consensus approach to economic policy making throughout the UK. This included 'regional policy', which transferred jobs from more prosperous regions to less successful areas. For example, Industrial Development Certificates were generally needed to construct factories anywhere in the UK.<sup>3</sup> These were usually far easier to obtain in government defined 'development areas', such as those in Wales. Governments also provided other inducements, such as the construction of factories.<sup>4</sup> By the late 1960s, such policies had helped Wales regain a measure of prosperity, with the *Western Mail* claiming that its economy 'had forged ahead at a pace unequalled by any other area of comparable size in Britain'.<sup>5</sup> However, the economic picture darkened throughout the 1970s. A simultaneous rise in inflation and unemployment ('stagflation') led to a reassessment of the consensus approach. At the same time, deindustrialisation meant that there was no longer a

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<sup>3</sup> Wayne Parsons, *The Political Economy of British Regional Economic Policy* (London: Routledge, 1988), p. 78.

<sup>4</sup> Geoffrey Percival, *The Government's Industrial Estates in Wales 1936–1975* (Treforest: Welsh Development Agency, 1978), p. 108.

<sup>5</sup> Clyde Barrow, 'Famous Firms' Huge Stake', *Western Mail*, 5 May 1965, p. 15.

supply of new factories that could be diverted from successful regions.<sup>6</sup> By the later 1970s, regional policy was in sharp decline.<sup>7</sup> However, the Welsh economy was not in immediate crisis before 1979. For example, by 1976, 30 years of regional policy had helped ensure that there were over 50 factories employing more than 1,000 people (such as Hoover in Merthyr Tydfil and ICI in Pontypool), with 105 employing more than 500.<sup>8</sup> At the same time, despite the rapid run-down of the coal industry in the 1960s and closures in the steel industry in the late 1970s, these nationalised industries still employed some 80,000 people.<sup>9</sup> However, economic and political pressures were mounting, with John Morris noting in 1979 that ‘despite all our efforts, we have to run very hard to stand still in terms of jobs’.<sup>10</sup>

While Wales may have been standing still in economic terms, the perception elsewhere was that the UK was locked into relative decline. Following the self-immolation of the trades unions in the 1978-79 ‘winter of discontent’, the Conservatives under Margaret Thatcher won the general election of May 1979. They aimed to confront economic problems through a radical programme that aimed to strengthen private enterprise and restrict the role of the state, especially through the rationalization and privatisation of nationalised industries. Such

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<sup>6</sup> Paul Balchin, *Regional Policy in Britain—the North South Divide* (London: Chapman, 1987), p. 67.

<sup>7</sup> House of Commons, *First Report From the Committee on Welsh Affairs—the Role of the Welsh Office and Associated Bodies in Developing Employment Opportunities in Wales (Vol 1)* (London: HMSO, 1980), p. xvii-xviii.

<sup>8</sup> *Digest of Welsh Historical Statistics, 1974-1996*, ed. by L.J. Williams (Cardiff: Welsh Office, 1996), p. 95.

<sup>9</sup> As Above, p. 91; Welsh Government, *Stats Wales, Iron and Steel Production by Year, Measure and Area* [online]

<sup>10</sup> National Library of Wales (Hereafter NLW), John Morris Papers. C2/10, *Note to PM on Industrial Prospects in Wales* (February 1979).

policies were to have drastic implications, especially in Wales with its relatively high dependence on traditional industry. Monetarist attempts to control inflation through higher interest rates created a high pound, making exports more expensive, while reductions in government expenditure and tax increases decreased domestic demand. Manufacturing slumped, as factories opened during the post-war 'golden age' of economic expansion were unable to survive. Between 1979 and 1983, the number of such employees dropped by 36.0 per cent in Wales, with overall employee levels dropping by 13.8 per cent.<sup>11</sup> At the same time, central government had little appetite for traditional regional policy, and soon scrapped the Industrial Development Certificate system.

The change of government was also to have far-reaching implications for the nationalised industries of coal and steel. In 1979-80, their Welsh operations received some £274 million in government support, a sum which increased to over £800 million in the following year. This was some 17 per cent of all identifiable public expenditure in Wales,<sup>12</sup> more than was spent on either education or health.<sup>13</sup> While rationalisation within steel had been on-going throughout the later 1970s, the new government was determined to speed up the process and thus reduce subsidies. This led to the 1979 announcement of the slim-line programme, involving the loss of 11,000 jobs at Port Talbot and Llanwern,<sup>14</sup> and the ending of steel production at Shotton. The sense of crisis was summed up by Nicholas Edwards, who

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<sup>11</sup> *Digest of Welsh Historical Statistics 1974-1996*, ed. by L.J. Williams, pp. 138-139.

<sup>12</sup> This includes all Welsh Office activities and most of those controlled by central government, such as social security and justice, but not others such as defence and debt interest. (*Digest of Welsh Statistics, No.29, 1983-84*, p. 133).

<sup>13</sup> As Above, p. 133.

<sup>14</sup> Colin Baber and Lynn Mainwaring, 'Steel', in *The Welsh Economy*, ed. by K.D. George and Lynn Mainwaring, pp. 201-232 (p. 218).

informed Margaret Thatcher in April 1980 that it was ‘hard to overstate the sense of despondency and desolation that is present at all levels within the [steel] industry at present’.<sup>15</sup> By 1983, 21,180 employees remained, reduced from 51,780 in 1979.<sup>16</sup> The Welsh Office had no formal role within steel, and attempts to exercise informal influence were unsuccessful. For example, Nicholas Edwards wrote to Margaret Thatcher in mid-1980 outlining an approach that would create government supported regional companies, at least in the short-term.<sup>17</sup> However, this was not acted upon,<sup>18</sup> with the Prime Minister noting elsewhere that she was ‘somewhat astonished at the lack of consultation’ with the Welsh Office from other parts of government following the job losses at Shotton.<sup>19</sup>

After the relative stability of much of the 1970s, the fortunes of the Welsh coal industry also took a sharp turn for the worse. Demand was reducing and the industry was struggling with high operating costs. Crucially, the National Union of Mineworkers and the government were implacable opponents, with the government being keen to prevent the miners from repeating their role in the 1974 defeat of Edward Heath. While the Welsh Office was again excluded from the formal decision making process around coal, the political and financial issues were such that it was reluctant to seek any involvement. For example, Derek Ezra, the National Coal Board Chairman, secretly proposed in 1980 that the South Wales Coalfield be placed under the control of the Welsh Office ‘to solve the area’s problems in a Welsh context’.<sup>20</sup>

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<sup>15</sup> NLW, Crickhowell Papers, 3/13. *Untitled Memorandum to the Prime Minister* (1980).

<sup>16</sup> Welsh Government, *Stats Wales* [online].

<sup>17</sup> NLW, Crickhowell Papers, 3/13. *Untitled Memorandum to the Prime Minister* (1980).

<sup>18</sup> Interview with Lord Crickhowell, Secretary of State for Wales, 1979-1987.

<sup>19</sup> National Archives (Hereafter NA), PREM. 19/97, *Letter From Prime Minister’s Office to Permanent Secretary at the Department for Trade and Industry* (11 June 1979).

<sup>20</sup> NA, Coal. 76/3201, *Letter from Derek Ezra to Philip Weekes*, 27 May 1981.

However, this was rejected,<sup>21</sup> probably as the crucial decisions over subsidy would have been retained by London, meaning that the Secretary of State would have been in the uncomfortable position of having accountability without full authority. Productivity remained below the UK average and heavy losses continued during the early 1980s. For example, the steel plant at Port Talbot found that it was cheaper to ship in coking coal from Australia than use that mined locally. Plans to exploit the reserves located underneath the plant itself were never executed, with the local MP, John Morris, stating that it would be ‘foolhardy’ to develop these at the expense of saddling the steelworks with coal that was ‘totally uneconomic’.<sup>22</sup> However, the fortunes of the industries diverged after the bitter and protracted coal strike of 1984-85. While the state-owned British Steel Corporation was being prepared for privatisation and continued as a major producer, the coal industry was now in rapid decline as government had little interest in ensuring its continuation.

Overall, the turmoil of the early 1980s and the accompanying social impact led to a profound sense of shock. Many of the industries on which the economy had been built were in a state of virtual collapse. In 1979, 68,000 people in Wales were unemployed, but some 166,000 were without work by 1985. In December 1980, the *Western Mail* warned of ‘an economic and social disaster of a scale not witnessed since the depression [of the 1930s]’.<sup>23</sup> Earlier in the same year, Nicholas Edwards warned the Prime Minister about ‘a sense of crisis and genuine fears of a return to the 1930s ‘...’ there is a compelling need to create hope’ when

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<sup>21</sup> NA, Coal. 76/3201, *NCB Memo-Discussions with the Welsh Office*, 12 June 1981.

<sup>22</sup> NLW, John Morris Papers. B2/1, Labour Party Wales. *Speech given by John Morris MP to the Port Talbot Chamber of Commerce* (1981).

<sup>23</sup> ‘Desperate Price to Pay for Steel’, *Western Mail*, 10 December 1980, p. 8.

discussing the steel industry,<sup>24</sup> while on a visit to Cardiff in 1980, Lord Kaldor, the architect of 1960's regional policy, described monetarism as 'a terrible curse—a visitation of evil spirits that has devastated our country'.<sup>25</sup>

The new government's commitment to change was tempered by recognition that, in Wales at least, some type of regional policy was required. According to the 1979 Conservative manifesto for Wales, it was to 'continue the policy of successive governments which have used financial assistance to prepare sites, remove derelict land and encourage the arrival of new industry. An effective regional policy will be needed for the foreseeable future'.<sup>26</sup> Within this approach, the Welsh Office did have some powers and resources. It was able to decide which companies were awarded grant under the Regional Selective Assistance scheme. Despite this, maximum levels of support and eligibility rules were decided by central government, while a parallel scheme controlled by central government saw substantial budget reductions before being withdrawn completely. However, the most prominent areas of influence related to the development agencies created by the previous administration. These were the Welsh Development Agency (WDA), the Development Board for Rural Wales (DBRW) and the Land Authority for Wales. Although these were mostly funded by the Welsh Office, each had their own remit and board to ensure that they were able to operate at 'arms length',<sup>27</sup> so as to ensure greater flexibility. The most powerful was the WDA, whose remit gave it the ability to promote Wales as an investment location, reclaim derelict land,

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<sup>24</sup> NLW, Crickhowell Papers. 3/13, *Untitled Memorandum to the Prime Minister* (1980).

<sup>25</sup> 'Kaldor Warns of 3.5 Million Jobless in Two Years', *Western Mail*, 4 December 1980, p. 11.

<sup>26</sup> NLW, Crickhowell Papers, 2/8. *Conservative Manifesto for Wales 1979*.

<sup>27</sup> Interview with Lord Morris, Secretary of State for Wales, 1974-1979.

develop industrial sites and premises, and assist the ‘establishment, growth, modernisation or development of an industry or any undertaking in an industry’.<sup>28</sup> Spending by the Welsh Office and its agencies tended to fall into a number of categories, including the reclamation of derelict land, factory construction and urban regeneration, attraction of foreign direct investment (FDI) and support for indigenous businesses.

The most prominent was the reclamation of derelict land. Estimates of the amount of such land varied, but the Welsh Office identified 2,685 sites in 1975.<sup>29</sup> Over seventy per cent were found in south Wales, mainly related to metal smelting or coal, with the coal tips alone containing more than 300 million tonnes of waste.<sup>30</sup> However, significant pockets existed elsewhere, such as the 149 slate-related sites in north west Wales. Dereliction inevitably had a depressing impact on adjacent communities, with the WDA’s Chief Executive supporting reclamation as he didn’t want ‘people to feel like they were living in a museum’.<sup>31</sup> At the same time, many sites presented environmental risks, with a 1982 survey identifying 703 contaminated sites, 66 of which contained significant hazards such as toxic chemicals.<sup>32</sup> Finally, the congested topography of the south Wales valleys meant that there was often limited space to construct new factories, unless sites were reclaimed.

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<sup>28</sup> Office for Public Sector Information. *Welsh Development Agency Act 1975. Section 1 (3)*.

<sup>29</sup> E.M. Bridges, *Healing the Scars: Derelict Land in Wales* (Swansea: University College of Swansea, 1988), p. 51.

<sup>30</sup> ‘In the Shadow of a Moving Mountain’, *Western Mail*, 30 January 1975, p. 8.

<sup>31</sup> Interview with David Waterstone, WDA Chief Executive, 1983 -1990.

<sup>32</sup> National Audit Office, *Land Reclamation in Wales* (London: National Audit Office, 1994), p. 28.

Land reclamation had been a Welsh Office priority since the Aberfan disaster of 1966.<sup>33</sup> This programme was continued after 1979, while industrial decline ensured that the supply of derelict land remained high. The WDA did not generally reclaim land itself, instead contracting this work out via local authorities, but its role as a grant provider allowed it to prioritise and oversee reclamation. When assessing potential sites, the highest priority was accorded to those with safety, flooding or contamination issues, the second was for sites with potential to be reused for factories or housing, and the third was those with potential for leisure usage or general environmental enhancement.<sup>34</sup> By 1981, the WDA had reclaimed 2,900 acres (4.5 square miles) of land across 108 schemes since 1976.<sup>35</sup> Between 1979–80 and 1989-90, some 8,100 acres (12.7 sq. miles) were reclaimed.<sup>36</sup> Plates 1 and 2 show the dramatic results of a typical scheme.

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<sup>33</sup> Hansard, HC Deb 26 October 1967, Vol 751, col 1912.

<sup>34</sup> Interview with D. Gwyn Griffiths, WDA Director, Land Reclamation, 1980s.

<sup>35</sup> *WDA-The First Five Years* (Pontypridd, Welsh Development Agency, 1981), p. 17.

<sup>36</sup> WDA, Annual Reports, Various Editions.

*Plate 1: Ogilvie colliery site, Rhymney Valley, before reclamation.*



*Plate 2: Ogilvie colliery site after reclamation, 1984-85.*



As well as land clearance, the Welsh Office was able to broaden its focus towards urban regeneration once the immediate impact of the slump had subsided. Although such activities were to become more prominent in the 1990s, it was in the early to mid-1980s that the Welsh Office and local government laid the foundations for the Cardiff Bay redevelopment. At the same time, the former steelworks site at Ebbw Vale was reclaimed for a garden festival in 1992, while an urban development programme was put in place to begin the process of restoring the fabric of Wales' towns and cities. As part of the general focus on land development, the Land Authority for Wales was active in assembling packages of land for commercial and industrial uses, which it was able to do with the support of its compulsory purchase powers, although these were rarely used.<sup>37</sup>

Land reclamation was hugely successful, not just in terms of improving the environment and releasing land for development, but also in changing the public face of much of Wales. Most of this activity would not have taken place without Welsh Office support, as the commercial value of reclaimed land rarely exceeded the cost of remediation. For example, the private sector would not have carried out such work in more peripheral areas such as the Heads of the Valleys. Commercial investment would then have clustered to an even greater extent in more accessible areas such as the eastern reaches of the M4 and A55, which had traditionally found it easier to attract investment due to infrastructural and demographic advantages. As well as economic benefits, land clearance also had positive impacts on the morale of surrounding areas, especially given that large amounts of reclaimed land were not reused for development, instead being used for leisure or forestry. The removal of unsightly dereliction helped demonstrate that something was being done to tackle the physical residue of

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<sup>37</sup> Land Authority for Wales, *Annual Reports*, Various Editions.

deindustrialisation. However, any such positives have to be set against the very difficult circumstances of the time, especially in areas affected by the run-down of coal, which left a legacy of deep bitterness.

The second area of activity included the development of industrial sites and the construction of advance factories. These were units that were built speculatively and then marketed to occupiers. As a result of the 'slim-lining' of the steel industry, the WDA announced a construction programme of 356 factories between December 1979 and March 1980, comprising some 2.4 million sq. ft. of space. This was also spurred by the realisation that economic conditions meant that private sector developers were unwilling to construct factories throughout much of Wales.<sup>38</sup> The Welsh Office was thus prepared to continue and extend the large-scale construction programmes announced before 1979. The scale and speed of construction was recognised as being unparalleled, with the Secretary of State for Industry, Keith Joseph, noting in 1980 that the funding for factory construction in the Shotton area could not be matched elsewhere in the UK.<sup>39</sup> While rural Wales was not directly affected by the steel run-down, the DBRW was also developing factories and sites.

Following the building programmes of the early 1980s, factory completions rapidly fell back. These peaked in 1981–82 at some 2.5 million sq. ft, but had reduced to some 0.3 million sq. ft. by 1984-85.<sup>40</sup> The increase in supply soon exceeded demand, leading the WDA to state that as a result of 383 unoccupied factories, it was to 'restrict further buildings of advance

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<sup>38</sup> Interview with Ian Rooks, WDA Property Development Director, 1980s.

<sup>39</sup> NA, PREM. 19/97, *Letter From Keith Joseph to Nicholas Edwards* (9<sup>th</sup> November 1979)

<sup>40</sup> As a comparison, a football pitch covers some 76,000 sq. ft.

factories to specific locations where there is a shortage of particular sizes of buildings'.<sup>41</sup> Instead, there was a concentration on locations with most potential, so as to provide the greatest scope for job creation, although there was resistance amongst local authorities in the Valleys, who were naturally keen to see greater activity in their areas.<sup>42</sup> As well as building standard factories, the WDA also constructed properties more suited to high technology companies, although these remained a small proportion of its activity.<sup>43</sup> Factory construction was also scaled back in mid-Wales, with the DBRW being advised by the Welsh Office in mid-1984 that additional factory building depended to a large extent upon the sale of its existing assets.<sup>44</sup> Despite this, factory numbers almost doubled to some 500 between 1982 and 1986-87.<sup>45</sup> As well as building speculative factories, the board also provided bespoke premises, such as that built for Laura Ashley in Newtown in 1986-87.<sup>46</sup> Overall, some 10 million sq. ft. was constructed by the WDA between 1979-80 and 1989-90.<sup>47</sup> However, this was dwarfed by the scale of the industrial collapse, with the Secretary of State noting that 'even this massive programme will not provide new factory space for every single job to be lost.'<sup>48</sup> While 44,000 people were working in factories owned by the agency by 1984-85,<sup>49</sup> unemployment was at almost four times this level. However, factory programmes provided some immediate relief and enabled the creation of a large number of jobs by companies

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<sup>41</sup> NLW, GB 0210 DBRW. *Minutes of Board Meeting, 2 January 1980*, p. 11.

<sup>42</sup> Interview with Ian Rooks.

<sup>43</sup> *WDA Annual Report 1985–86*, p. 15.

<sup>44</sup> NLW, GB 0210. DBRW, *Minutes of Board Meeting 12 June 1984*.

<sup>45</sup> *DBRW Annual Report, 1981–82*, p. 11; *DBRW Annual Report 1986-87*.

<sup>46</sup> *DBRW Annual Report, 1986–87*, p. 10.

<sup>47</sup> *WDA Annual Reports*, Various editions.

<sup>48</sup> NLW, Crickhowell Papers. 3/13, *Speech by Nicholas Edwards to the Welsh Grand Committee* (May 1980)

<sup>49</sup> *Digest of Welsh Historical Statistics 1974–1996*, ed. by L.J.Williams, p. 99.

taking up these units. Factory construction would generally not have taken place without the involvement of the Welsh Office and its agencies, while it was also critical to FDI (Foreign Direct Investment), soon to become the Welsh Office's greatest success.

While the clearance of land and the construction of factories were significant achievements, they would not enable longer-term job creation without investment from companies, either those based in Wales (indigenous), or overseas (FDI). This was well recognised, with Nicholas Edwards stating in 1981 that he was 'desperately anxious to achieve a broadening of the industrial base in Wales'.<sup>50</sup> By the early 1980s, the WDA was increasingly focusing on attracting FDI. For example, its overseas marketing activities in 1984 included a marketing campaign in six cities in the United States, operated jointly with the DBRW.<sup>51</sup> By the later 1980s, Wales was one of the UK's strongest areas in terms of FDI, and was capturing up to 17 per cent of recorded investment in the UK.<sup>52</sup> It was successful in attracting companies in sectors including electronics (such as Sharp in Wrexham) and automotive (such as Toyota in Deeside). By the end of the decade, FDI was well established as a flagship activity for the Welsh Office and its agencies. According the Welsh Office's industrial advisor, 'We were able to promote this very dynamic package "We can give you premises, we can give you grants, we can give you a good labour force, we can give you a cheap labour force, we can give you loans, cheap loans from the European Community."<sup>53</sup> For example, Peter Walker

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<sup>50</sup> NLW, Crickhowell Papers. 3/14, *Speech by Nicholas Edwards to Institute of Directors (Wales)* (20 November 1981).

<sup>51</sup> *DBRW Annual Report, 1983–84*, p. 16.

<sup>52</sup> Department for Trade and Industry, *FDI Project Announcements Database*.

<sup>53</sup> Interview with Jim Driscoll, Industrial Advisor to Secretary of State for Wales, early 1980s.

led the successful drive to attract a large Bosch automotive component factory to south Wales, intervening to ensure that planning obstacles were overcome.<sup>54</sup>

The extent of Wales' success created friction within government by 1981, symbolised by Nissan, which was searching for a location suitable for a car factory. During this process, Nicholas Edwards met with Nissan's Managing Director in Toyko, which prompted Keith Joseph to write a rebuke on the grounds that an undertaking had been given that Nissan would not be contacted.<sup>55</sup> A furious correspondence then followed, with the Welsh Office minister stating that the part of central government responsible for FDI sometimes appeared to 'regard the Welsh Office with deep hostility'.<sup>56</sup> This foreshadowed a growing sense of resentment towards Wales with its active FDI policies, although Nissan eventually went to Sunderland. Overall, while Wales' low cost base and access to Europe were the main reasons for its success, the ability of the Welsh Office and its agencies to put in place factories, grants and infrastructure which were then aggressively marketed to potential investors was also very important. At the same time, FDI was not generally the low wage environment it was sometimes accused of being, with its manufacturing wages being usually above those in much of the service sector, but less than in traditional industries such as coal and steel.<sup>57</sup> However, its relatively small volume (creating an average of some 3,400 new jobs per

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<sup>54</sup> Interview with Ken Poole, Economic Development Officer, South Glamorgan County Council, 1980s

<sup>55</sup> NLW, Crickhowell Papers. 1/ 4, *Letter From Keith Joseph to Nicholas Edwards* (13 February 1981).

<sup>56</sup> NLW, Crickhowell Papers. 3/15, *Letter From Nicholas Edwards to Keith Joseph* (14 February 1981).

<sup>57</sup> House of Commons, *Committee on Welsh Affairs—Inward Investment into Wales and its Interaction with Regional and EEC policies (Vol II)* (London: HMSO, 1988), p. 347A.

annum)<sup>58</sup> meant that it could only be a small part of an effective response to Wales' problems. Despite this, a combination of its undeniable success and the way in which it offered good publicity through the announcement of investments, led FDI to assume a totemic status by the end of the decade that was in excess of its actual achievements.

The Welsh Office was also able to award grants to companies under the Regional Selective Assistance scheme. For example, applications from 209 companies were approved in 1984-85. These were expected to create some 10,000 new jobs,<sup>59</sup> although actual out-turn figures were not collected. However, Welsh owned companies accounted for less than four per cent of the total aid awarded between 1979 and 1983.<sup>60</sup> While grant schemes were open to all applicants, their main focus was the manufacturing sector. However, this was dominated by companies headquartered outside Wales, with Welsh firms tending to be small. For example, the Welsh Office stated in 1983 that it was aware of only two Welsh companies (Laura Ashley and AB Electronics) that were sufficiently successful to have opened overseas manufacturing branches.<sup>61</sup> This meant that while the Welsh Office was keen to encourage indigenous applications, the demand for grants was inevitably dominated by overseas companies.

Welsh Office attempts to support indigenous businesses took two main forms. The first sought to enhance access to finance. The existence of an investment gap that prevented

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<sup>58</sup> Department for Trade and Industry, *FDI Project Announcements Database*.

<sup>59</sup> *Industrial Development Act 1982—Annual Report 1984-85*, p. 11.

<sup>60</sup> D.H. Simpson, *Manufacturing Industry in Wales: Prospects for Employment Growth* (Cardiff: Wales TUC, 1987), p. 33.

<sup>61</sup> House of Commons, *Committee on Welsh Affairs—The Impact of the European Community on Wales. Appendices to the Minutes of Evidence* (London: HMSO, 1983), p. 333.

businesses from obtaining loans and investment from commercial providers such as banks had long been the subject of debate, with the Welsh Office using the WDA since the mid-1970s to provide such support. However, the period immediately after 1979 saw a reduced emphasis on such activity.<sup>62</sup> This was caused by a combination of the emphasis on factory construction and the failure of a large (£2 million) investment in P.Leiner Ltd, a Treforest based gelatine producer, whose bankruptcy highlighted the difficulty faced by the WDA when investing. The point of such support was to add to, and not duplicate, existing sources such as banks. The WDA was thus acting as a lender of last resort, as it was seeking to support companies that had difficulty in obtaining finance from traditional sources. This meant that there was inevitably going to be a high failure rate, but it was often politically unacceptable to make a large loss on an individual project.

Between 1978-79 and 1980-81, the WDA invested some £10 million. However, between 1981-82 and 1984-85, investments were made in 300 companies, totalling some £24 million.<sup>63</sup> The focus remained industrial investment, with the service sector accounting for only 16.6 per cent by 1987.<sup>64</sup> However, the WDA's investments did not perform well in overall terms, with the agency failing to meet its own rate of return targets. By the end of the decade, the WDA had been unable to record a positive cumulative return after 1982-83, meaning that the agency was unable to assemble a profitable portfolio. Given the agency's local knowledge, this meant that there was a shortage of commercially viable projects, with a Welsh Office minister, Wyn Roberts, later stating that 'there were never enough local

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<sup>62</sup> Hansard HC, 18 February 1980, Vol. 979, c. 17 (debate).

<sup>63</sup> Hansard HC, 17 June 1985, Vol. 81, c. 11 (answer to written question).

<sup>64</sup> *Welsh Economic Trends No. 11 (1987)*, p. 92.

entrepreneurs'.<sup>65</sup> However, the agency saw its investments as not only supporting businesses, but also building confidence, so was thus prepared to absorb some losses as part of its overall drive to increase 'levels of commercial spirit'.<sup>66</sup>

As well as providing finance, the Welsh Office also placed emphasis on the encouragement of indigenous enterprise through the provision of training and support services. By 1985-86, the WDA had offered professional advice to 7,000 companies in that year, with its Small Firms Centre responding to enquiries from 22,000 individuals or companies.<sup>67</sup> Also, the DBRW was active in a broader business support role, and had set up a series of centres to offer advice and support to entrepreneurs by 1987. Finally, the Wales Tourist Board continued to market Wales as a holiday destination, and provided limited grant support for the improvement of visitor facilities. However, its limited resources combined with the difficulty of competing against overseas destinations meant that its task was difficult, with the Welsh Office's Permanent Secretary stating in 1982 that its resources gave 'pretty small leverage' within the industry.<sup>68</sup>

By the end of the 1980s, success in attracting FDI combined with a general economic upturn across the UK led to the emergence of some optimism in Wales, skilfully boosted by Peter Walker, a committed interventionist. Unemployment was falling towards UK average levels, while business activity was increasing. Although the number of manufacturing employees in 1990 remained some 30 per cent below its 1979 level, service sector growth had enabled

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<sup>65</sup> Wyn Roberts, *Right From the Start* (Cardiff: University of Wales Press, 2005), p. 186.

<sup>66</sup> Interview with David Waterstone.

<sup>67</sup> *WDA Annual Report 1985-86*, p. 16.

<sup>68</sup> NA, BD 96/3, *Note from Permanent Secretary to Secretary of State*, 19 July 1982.

overall employee numbers to recover to within 4 per cent,<sup>69</sup> while self-employment had grown dramatically. However, Wales' output per head was the second lowest of all UK areas throughout the decade, while other indicators such as average wage levels also placed it in low relative positions. Any optimism that relative decline had been halted or reversed was short-lived, and such decline recommenced in the mid-1990s.

Overall, the Welsh Office of the 1980s presided over intervention of a volume and type that would not have occurred in the absence of administrative devolution, and did not occur in the English regions. This approach was outlined by the Secretary of State for Wales in a 1979 briefing to the Prime Minister, where he discussed the 'continuing need for bodies such as the Welsh Development Agency, the Development Board for Rural Wales and the Welsh Tourist Board to be allowed to pursue distinctive policies. The justification for having such organisations is that they can respond to local circumstances'.<sup>70</sup> At the same time, while the Welsh Office was using its powers in a way that was far more interventionist than the approach taken by central government, these powers were limited and there were no significant differences between Conservative Secretaries of State and central government on the great economic issues of the time. The Welsh Office was instead motivated by the reality of decline and dislocation, while its agencies offered the opportunity to intervene within the confines of their remits. They also offered opportunities to generate favourable publicity. As well as this, Wales is a small part of the UK. While its natural resources had placed it at the heart of the industrial revolution, a position which organised labour later translated into a strong political presence at Westminster, these dynamics had decayed by the 1980s. In many

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<sup>69</sup> *Digest of Welsh Historical Statistics 1974-1996*, ed. by L.J. Williams, pp. 138-139.

<sup>70</sup> Margaret Thatcher Archives, *Edwards Minute to MT (public expenditure in Wales) ("special requirements")*.

respects, the Welsh Office was treated as a backwater and was left to its own devices. Central government had little reason to object to its interventions, with Nicholas Edwards noting that he ‘had the almost unqualified support from the Prime Minister ‘...’ she backed me absolutely to the hilt’,<sup>71</sup> as they had little impact, or visibility, at a UK level, while Peter Walker expressed similar sentiments.<sup>72</sup>

Despite this, the recession was so deep that the Welsh Office’s relatively limited powers and budgets could do little to alleviate the situation in the short-term. For example, when the Secretary of State declared in April 1980 that he expected intervention to create some 18,000 jobs over the next four years, it was pointed out that there had been at least 44,000 redundancies in the previous ten months.<sup>73</sup> However, this does not mean that interventions were unsuccessful. An alternative scenario where little or no intervention was carried out would have resulted in a significantly worse situation, given that land would not have been cleared in most cases, nor factories constructed, while many companies may not have been willing to invest in the absence of financial support. However, assessing how many jobs were created is an impossible task as full evaluations were not carried out,<sup>74</sup> while many of the reported job creation totals were estimates. For example, central government's National Audit Office noted in 1991 that the Welsh Office and its agencies ‘cannot assess the extent to which these initiatives have influenced the overall trends in the labour market. Nor can they assess

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<sup>71</sup> Interview with Lord Crickhowell.

<sup>72</sup> Peter Walker, *Staying Power—An Autobiography* (London: Bloomsbury, 1991), p. 202.

<sup>73</sup> Hansard HC, 21 April 1980, Vol. 983, c. 12 (debate).

<sup>74</sup> For example, the difficulty of linking campaigns to attract investment to actual investment obtained was noted in 1980, with the Welsh Office stating that ‘it is virtually impossible to quantify the overall results of promotional activity’. NA, BD 41/373. *Welsh Office Internal Briefing Note*, 27 October 1980

the economic position Wales would have reached without those initiatives '...' It is therefore very difficult to evaluate the full success of these initiatives.<sup>75</sup>

While intervention can be very effective, sustained economic growth is not automatically in the gift of any government, especially of a department such as the Welsh Office. While more intervention may have been beneficial in some respects, it would not have automatically led to better commercial outcomes. For example, there would have been little point in building more advance factories without tenants to fill them. At the same time, while the provision of more capital to investing companies would have increased the level of commercial activity, a lack of viable companies might have led to greater losses. However, an area where more could and should have been done was the service sector, although identifying interventions that could have been more successful is far from easy. In many ways, interventionist apparatus and methods were geared towards manufacturing, with relatively limited attention being paid to the service sector.

If it can be accepted that intervention was necessary and worthwhile, then an obvious question is: why did Wales remain relatively poor after so much effort? There are at least three answers to this question. Firstly, the loss of so many jobs in manufacturing, steel and coal was so great a shock that any administration, especially one with limited powers, would find it exceptionally difficult to redevelop the economy. In some ways, the size of this shock meant that Wales was running up the down escalator for much of the period. Secondly, while Wales' had great success in attracting FDI, its volume relative to the economy as a whole was insufficient to offset the jobs that had been lost. Finally, Wales proved unable to develop

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<sup>75</sup> National Audit Office, *Creating and Safeguarding Jobs in Wales* (London: National Audit Office, 1991), p. 4.

enough home-grown businesses. Overall, although the Welsh Office was unsuccessful in charting a self-sustaining growth path, it was successful in effectively and energetically using its limited resources to partially offset the impact of economic change.