In April 2015, the Learned Society of Wales, with support from Bangor University, organised an International Symposium on Economic Policy for Peripheral Economies. The symposium, held at Portmeirion, brought together specialists in the field of regional development; both economists and economic geographers. These two groups have active research programmes that do not always interact as much as they might and an aim of the symposium was to achieve cross-fertilisation of ideas. There were notable and distinguished contributors from the United States and Continental Europe, as well as from the United Kingdom, and with a substantial representation from Wales.

Following the Symposium, the presenters were invited to submit a paper to the Welsh Economic Review, based on their contributions. Those received are contained in this volume. The format of the symposium was for each main presentation to be followed by another that provided brief comments and observations on the main paper. Some of these comments have also been received, and follow the relevant main papers in this volume.

The intention of the Symposium was not merely to review the current state of the academic field but also to stimulate a discussion with a direct bearing on policy. The issues covered have widespread relevance but are evidently pertinent to Wales. The country is geographically peripheral in Europe and since the decline of the heavy industries in which it had specialized, and indeed had helped to launch during the industrial revolution, it has become economically peripheral too. Wales’ position ahead is only slightly more than 70 per cent of the UK average, and West Wales and the Valleys, together with Cornwall, are the last remaining areas of the UK classified as less developed regions by the EU. That means their GDP per head is less than 75 per cent of the average of the 27 EU countries.

The papers in this volume range from those taking an extensive view of development issues for peripheral countries in the globalized economy today to those concentrating on particular policies by John Kay, Jonathan Price provides an overview of the Welsh economy and its challenges. Ricardo Hausmann identifies know-how or implicit knowledge as a key, perhaps the key, factor in economic development. As both objective and implicit knowledge grow they exceed the capacity of individuals to master them; increasing specialisation by those individuals is necessary if society is to deploy all the knowledge available. The stage of development of an economy can be measured by the range of skills its inhabitants possess and the extent of their specialisation. These factors are reflected in the range of goods and services in which the economy in question has a comparative advantage. The more diverse an economy is, the more complex it may be said to be, and the higher its GDP is likely to be. Hausmann reviews the techniques developed at Harvard for measuring diversity and complexity, and shows that these are indeed correlated with GDP and its growth.

Theory and observation both indicate that the more diverse an economy the easier it is to absorb new skills and know-how and put them to profitable use. Diversification is easier for the already-diverse. That implies a possible development externality whereby acquisition of know-how has a greater social than private benefit. The techniques developed by the Harvard school raise interesting possibilities for policy in indicating how complex the economy is, how far it may be left to develop without intervention, or how far it may need State initiative to promote acquisition of essential know-how that entrepreneurs or individuals may not think it worthwhile to acquire given the existing state of affairs.

Ron Boschma’s exposition of the notion of “smart specialisation”, the prevailing new orthodoxy in EU regional policy, touches on the same territory. The idea behind smart specialisation is to identify those very areas where the existing capabilities in the economy mean diversification and development are most likely to be successful. Entrepreneurs are the likeliest people to identify such areas but may well require an appropriate policy setting, whether active or merely permissive, to exploit the opportunities.

Yet the paper by Robert Huggins, drawing on the work of AnnaLee Saxenian, illustrates how difficult it is for government to insert itself constructively into the development process – at least once it has supported fundamental research. Silicon Valley and Taiwan flourished through clusters of initially small firms that co-operated...
and outsourced extensively in developing new products. There was a pattern of changing relationships within a dense network, which enabled many new ventures to be launched and techniques to be tested in parallel. That model, which Huggins terms recombinant innovation, contrasts with, and ultimately dominated, a more vertically-integrated model of innovation within a large firm, such as seen in Massachusetts or Finland. There, lock-in to an established line of product development often meant initial success was followed by a falling away.

Recombinant innovation, however, is arguably more unpredictable and harder to plan. Silicon Valley owes its origins to public procurement and the needs of the US defence establishment, but once it started to grow it outstripped any central authority’s ability to predict or match its course. The lesson of Taiwan, however, is that a peripheral region can enjoy great prosperity if it can develop the skills and know-how that enable it to insert itself into a global supply chain and become part of a network of co-operation and mutual stimulation. Movement of people was important in Taiwan’s development with a “brain drain” becoming a “brain circulation”, as the Taiwanese diaspora either returned or co-operated in business ventures in Taiwan.

Policy areas: education
Given the emphasis on know-how and the ability to absorb and employ new skills, the importance of education and training is evident. Ken Mayhew tackled the question of how public policy in these areas should seek to foster economic development – acknowledging at the outset that education had a broader role than simply fitting people for the labour force. He notes that there is a tension between planning for the future and equipping people for the current labour market. Currently in Wales many jobs are low-skilled. There is a lack of technical skills and many graduates report that they are over-qualified for their jobs, which do not use their education and do not challenge them. Those results suggest more technical or vocational education would be good with less emphasis on expanding entry to academic courses beyond the current level. Yet the aim in the future should be to generate more employment requiring higher skills and education.

On the vexed question of growing economic inequality, Mayhew notes that educational inequality starts very young, and all research shows the most important interventions are made in the early years with good nursery and primary school provision. Directing resources there, if necessary at the expense of higher education, would be the most promising way to tackle economic inequality.

Infrastructure
Bridget Rosewell notes the role of infrastructure in ensuring the kind of connectivity that is important for economic development. She observes, however, that techniques of cost-benefit analysis used to assess large infrastructure projects in the UK seldom take their economic development potential into account. Transport projects, for example, usually just estimate time saved in making journeys assuming that patterns of travel and economic activity are unaffected. Of course, predicting how reduced travel times will alter patterns of economic activity and how that will affect development is difficult. Because outcomes may be conjectural, there is a tendency for hard-nosed Treasury officials, perhaps mistrusting prestige projects, to retreat to narrower predictions and harder numbers. That, however, risks missing the main point of many infrastructure developments. Relative growth impacts may be hard to assess but the effort to do so is necessary.

Rosewell points out that intensive infrastructure is necessary for the development of large urban areas, where she says efficiency gains associated with agglomeration are to be found. Public policy has become influenced by the finding that productivity levels are higher in larger cities and this lies behind the interest in developing city regions around some smaller cities, such as Cardiff or Swansea in the Welsh case.

In his comment, however, Graham Gudgin points out there is an older and perhaps more plausible explanation for the higher productivity of larger cities than dynamic supply-side agglomeration effects. The central place model explains productivity differences in terms of demand; specialised services are supplied in only a few centres since population size does not justify their provision everywhere. These services tend to be high-value-added activities so the central places do show higher productivity. However, this value-added would be the same if the service happened to be located elsewhere and does not depend on agglomeration somehow improving efficiency. The implication is that a balance needs to be maintained in infrastructure provision and excessive concentration is possible. That is perhaps particularly true of digital networks which can abolish distance in some activities and bring smaller communities into broader supply-chains.

Note
1. The Learned Society of Wales is Wales’ first national Academy. (See http://learnedsociety.wales/)