

# Brexit could be an opportunity for the Welsh economy



*Brexit could be good for Wales, writes **James Foreman-Peck (Cardiff Business School)**. EU models of regional aid relied on a stand-alone conception of the Welsh economy, but in fact the country is deeply interlinked with the neighbouring English regions and cities. In a European Free Trade Area like the one Britain originally wanted to create, Wales' strengths – such as manufacturing productivity – could flourish in the long term.*

One idea of the Welsh economy is what the Welsh Government can influence with its economic policy instruments. This conception directs concern about Brexit to the new potential policy tools that arise from the repatriation of powers from Brussels, especially agricultural subsidies. Welsh agriculture is more subsidised than English, so Welsh farmers are naturally interested in whether the same level of funding will continue from Whitehall and whether it will be under the control of the Welsh or the British government. They can also hope that a better focussed policy can be achieved. If the British Treasury concedes the money to the Welsh Government, it is likely to go into the block grant. Then the Welsh Government will face the interesting choice of continuing to spend so much on agriculture (as well as in what form) or switching resources to other worthy cases, such as health or social care.

## Regional aid

A second important repatriation of powers is regional aid. By an ingenious redrawing of boundaries, Wales extracted substantial sums of EU money for West Wales and the Valleys. Some two billion euros are payable between 2014 and 2020. Will this level of support be continued by the UK government? There is not a great deal of evidence that heavy spending for many years has achieved the expected boost to the area, judging by past concerns of the Auditor General for Wales. EU (ex post) project evaluation only consists of establishing that monies were spent on what was stated by the project documents. By contrast, evaluation advocated by UK central government and signed up to by the Welsh government is concerned with outcomes. Such an approach has not been tried, most likely because the likely findings would be too embarrassing. So, on balance this level and type of regional policy funding is probably not going to be replaced by central government. But maybe a more effective regeneration policy can be found.



Cardiff huddle during a game against Birmingham at the Cardiff City Stadium, 2012. Photo: [Jon Candy](#) via a [CC-BY-SA 2.0 licence](#)

From a different point of view, there is no coherent Welsh economy, but two or more economies linked with areas of the English economy more than with each other. North Wales is associated with Liverpool where the first Welsh language newspaper was published. Mid-Wales connects more with Birmingham than with North or South Wales. By far the largest Welsh conurbation is Cardiff-Newport but judged by telecommunications, this area connects no more with the rest of Wales than with England and with Bristol, specifically. The consequences of Brexit for Wales are therefore closely tied to the results for England. These consequences in the long run matter much more, for Wales overall, than regional aid or agricultural subsidies.

## Reverting to WTO rules

What happens immediately because of Brexit depends on the terms negotiated, and transition periods, if any – which we do not yet know. It is hard to believe that 27 countries can agree much of significance beyond hanging on to the status quo. The ability to buy from and sell to the British market unconstrainedly is as valuable to the citizens of the 27 as to those of the UK. But the power of lobbies and the pressures of public finance are probably more compelling. Equally it seems unlikely the British government is strong enough to resist the ire of its Brexiteers by making much in the way of concessions to the EU, though there are some signs of a recognition that it is worth paying for a favourable trade settlement. So, my guess at present is that the UK will extract few concessions, the 'divorce bill' will remain unsettled and trading relations will revert to World Trade Organisation rules. Immigration may tail off somewhat, allowing stronger upward pressure on wages and therefore on productivity. But little fiscal strain will be relieved because most of this immigration stems from non-European Economic Area sources. Public spending will continue to be squeezed because the UK budget has not fully recovered from the 2008 crisis and the national debt-GDP ratio is too high for safety. To some extent the suppression of public spending growth now is a response to the massive expansion before the crisis; Welsh Government total spending rose by more than a half (55 per cent) in merely four years after 2000-01. This rate of expansion must be compensated by a later squeeze unless the productivity growth of the economy increases massively or there is a powerful general desire to pay much higher taxes.

The health service will not collapse because we can no longer employ EU personnel after Brexit. The misconception that it will is to lay the problems of the health service at the wrong door. The recent fall in EU personnel coming in to the health service has been shown to be due not to the Brexit vote, but to pre-emptive migration before the introduction of a language test, and the aftermath. Suitable wages and conditions could solve recruitment shortfalls. The fundamental problem is the underlying slow productivity growth of the economy that ultimately must pay for health services, coupled with the expanding demand for these services driven by an ageing population and the possibilities of technology.

## A European Free Trade Area

Brexit can allow subsequent trading relations to revert to former aspirations, with potentially beneficial impacts on the Welsh economy. The UK pressed for a European Free Trade area in the 1950s but in effect was pre-empted by the European Economic Community (or 'the Six'). The likelihood now is that Britain will return to that policy – however long it takes. At first sight, then, this will encourage under free trade a restructuring of the British economy towards services and away from manufacturing. But it is worth remembering the early experience of the EEC before making forecasts that, for instance, Tata Steel will disappear from South Wales. The original Franco-German deal was premised on the assumption that German manufacturing would wipe out French, and France would increase its agricultural specialisation. Hence big subsidies for agriculture in the form of the Common Agricultural Policy were the price of German access to the French market. But French industry flourished, contrary to these expectations. Freer trade creates unforeseen opportunities. Welsh productivity in manufacturing industry is quite good compared to overall Welsh productivity. This suggests that Wales after Brexit and a move to free trade may find a different and productive pattern of specialisation from much of the rest of the British economy.

The uncertainty of Brexit is temporarily bad for economic growth, but the long-term drivers will hardly be affected. It will still be possible to conduct beneficial close trading relations with Europe because long before the UK joined 'the common market', for instance, an integrated Ford Europe, including Britain, was created. Economic logic dictated that trading relations with Europe were close before membership of the European Community – and they will remain so after leaving. The brief adverse impact of departure will certainly be much less than that of the financial crisis, which is where many of the present problems of the British and Welsh economy began. With good governance, there will be opportunities from Brexit for better focussed, more effective policies with lower costs that will benefit the Welsh economy.

*This post was first published at [Cambria Nostra](#) and represents the views of the author and not those of the Brexit blog, nor the LSE.*

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