

Spatially Rebalancing the UK Economy: The Need for a New Policy Model

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Cambridge
17th July, 2015

The authors are grateful for the support
of the Regional Studies Association
in undertaking this research

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Overview

- Introduction: The New Concern over Spatial Economic Imbalance
- The Scale of Spatial Imbalance in the UK Economy
- Explaining and Redressing Spatial Imbalance: The Limitations of Existing Theories
- The Need for a New Geographical Political Economy?
- Where Does All This Leave Regional Policy?

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The 'New' Discourse of 'Rebalancing'

Not really that new.

"The contribution in one area of such a large proportion of the national population as is contained in Greater London, and the attraction to the Metropolis of the best industrial, financial, commercial and general ability, **represents a serious drain on the rest of the country**".

(Royal Commission on the Distribution of the Industrial Population [Barlow Commission], 1940, para 171)

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Spatially Unbalanced Growth and the 'North-South Divide'

"The traditional 'North-South'... problem has all but disappeared in the 1990s. This may prove to be a permanent development since the manufacturing and production sectors, the main cause of regional imbalance in the past, no longer dominate shifts in employment structure to the same extent.."

(Jackson and Savouri, 1999, p. 27).

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The New Discourse of 'Rebalancing'

"Our policy is to raise from the ruins of an economy built on debt, a new, balanced economy where we save, invest and export. An economy not overly reliant on the success of one industry, financial services – important as they are – but where all industries grow. **An economy where prosperity is shared among all sections of society and all parts of the country**".

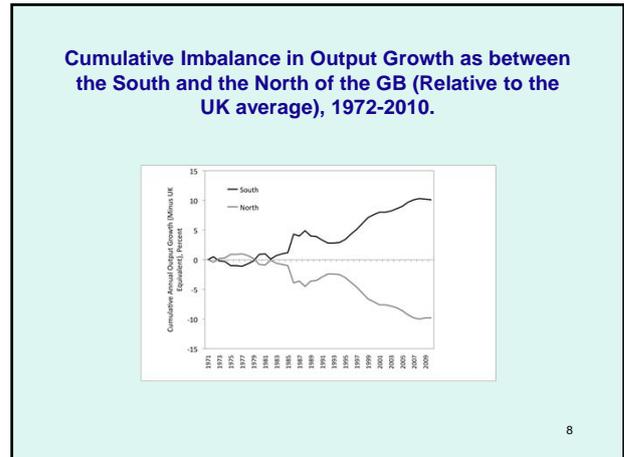
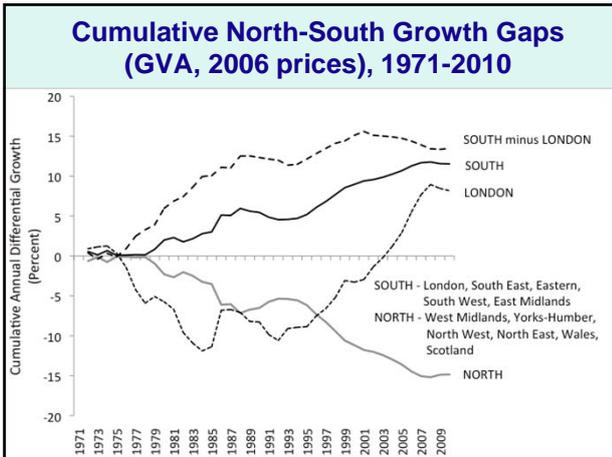
(George Osborne, Budget Speech, 2010)

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The New Discourse of 'Rebalancing'

- Barlow Report argued for a more spatially balanced pattern of activity and employment
- Became the basis for Post-War Regional Policy
- Seventy years on, spatial imbalance in the economy again a key issue
- Again argued that 'rebalancing' is required
- Problem again seen as structural
- Spatial imbalance is in fact one aspect of a recurring debate over the existence of a '**North-South Divide**' in Britain's economic landscape

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- ### The Scale of Spatial Economic Imbalance in the UK
- Some trend towards regional rebalancing (convergence) in post-war period up to late-1970s
 - But since then, increasing regional imbalance
 - Opening up of broad 'North-South Divide'
 - After lagging in previous decades, dramatic turnaround in London's growth performance from early-1990s – back to dominance of 1920s-30s
 - Growth in spatial imbalance in UK greater than in other major EU nations

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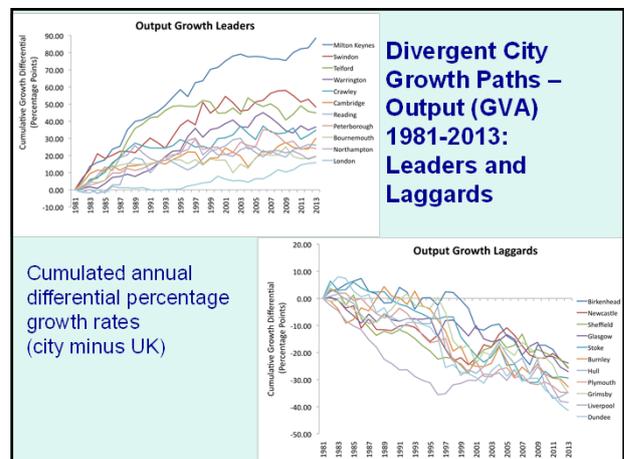
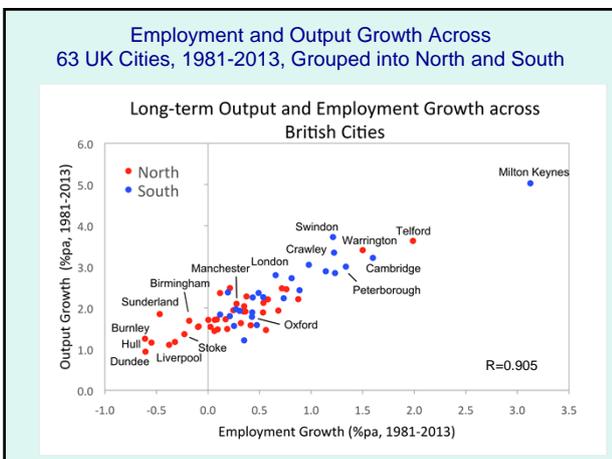
Spatial Imbalance in Selected EU States 1980-2011

Coefficient of Variation of NUTS2 Regional GDP per Capita (PPS)

	1980	2001	2011
United Kingdom	0.31	0.36	0.45
France	0.15	0.18	0.19
Netherlands	0.17	0.20	0.21
Italy	0.32	0.28	0.22
Belgium	0.43	0.44	0.37
Spain	0.14	0.19	0.15
Greece	0.35	0.21	0.14
Germany	0.35	0.23	0.23
EU-15	0.32	0.28	0.33
EU-27	0.34 (1993)	0.34	0.37

Data Source: Cambridge Econometrics

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Spatially Unbalanced Growth and the 'North-South Divide'

- Regional imbalances in economic growth have *not* disappeared
- High degree of 'path dependence' in uneven regional growth and development
- Striking 'turnaround' in London's growth path since early-1990s
- What does economic-geographic theory have to say?
- How far has regional economic imbalance been driven by sectorally unbalanced growth?

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The Limitations of Existing Theory

- Do we have a convincing and coherent theory of spatial economic imbalance?
- Balanced versus unbalanced growth – very significant and important development economics debate in 1940s-50s;
- **BUT** Economists and geographers have largely abandoned theorising the large structures and big processes of geographically uneven development in recent years;
- Modern spatial economics – NEG and NUE (New Urban Economics) – has discovered the relevance of geography, *but in very particular ways*

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The Limitations of Existing Theory

- Both NEG and NUE models tend to favour spatial imbalance
- **NEG Models**
 - Inherent bias towards agglomeration
 - Spatial imbalance result of 'market processes' under increasing returns, free trade and mobility of labour and capital
 - Spatially balanced growth unlikely and unstable outcome
 - Spatial imbalance an equilibrium outcome

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The Limitations of Existing Theory: The New Spatial Economics

- **NEG Theory**
- Spatial agglomeration (imbalance) is nationally efficient (raises national growth)
- Leads to idea of 'national efficiency-regional equity trade-off':

“Spatial agglomeration of economic activities ... may have positive efficiency effects... there is no need for European regional policy to deal with intra-national regional inequalities”.

P. Martin (2005) pp. 99-100, 107.

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The Limitations of Existing Theory: The New Spatial Economics

- **NEG Theory**

“Theory and evidence [from NEG] suggests that allowing regional concentration of economic activity will increase national growth... *policies that aim to spread growth amongst regions are running counter to the natural growth process and are difficult to justify on efficiency grounds, unless significant congestion costs exist*”.

UK Treasury (2006) Internal Mimeo, emphasis added

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The Limitations of Existing Theory: The New Spatial Economics

- **NEG Theory**

“This new understanding [NEG] of how economics works across space also alters the expected equilibrium. Even with fully functioning markets, there can be an uneven distribution of economic performance, and persistent differences that are not necessarily due to market failure”.

BIS Local Growth Agenda (2010) p. 23
- **Since no 'market failure', case for spatially rebalancing economy considered weak, possibly counterproductive**

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The Limitations of Existing Theory: The New Spatial Economics

- **NEG Theory**
- In UK context, some argument that major northern cities not big enough to benefit from agglomeration economies
- Agglomeration is the 'magic bullet' of growth
- However, probably only 'room' for one other major agglomeration the size of London (e.g. based on Manchester)
- **But agglomeration is hardly a coherent or convincing theory for rebalancing Britain's spatial economy**

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The Limitations of Existing Theory: The New Urban Economics

- **NUE Theory**
- Also focuses on benefits that accrue from agglomeration
- Density of activity ('economic mass') promotes higher productivity and growth
- Agglomeration of skilled human capital assigned a key role (Glaeser, Moretti, etc)
- Productive people attracted to successful, productive cities
- Emphasis on market '*spatial sorting*' of workers between cities (e.g. Gibbons et al 2010)

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The Limitations of Existing Theory: The New Urban Economics

NUE Theory

- Agglomeration is good for growth (as in NEG, 'city size matters')
- City land and housing markets should be allowed to operate freely, so as to permit inflows of workers and to keep prices down
- Policies aimed at regenerating particular places not very effective - ***strong dichotomy of the role of people and place***
- People-based (e.g. education/training), or firm-based (e.g. supporting R&D) policies work best
- Together with dismantling planning systems

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The Limitations of Existing Theory: The New Urban Economics

NUE Theory

- Cities assumed to be 'floating islands' – *where* they are doesn't matter, only how *large* and *dense* they are
- Estimates of density effect very low – in Britain a *doubling* of local working age population density increases productivity by only 3.5 percent
- Size is not the answer! (Kotkin, 2014)
- Dis-connected from wider processes of economic growth, financial system, political structures, etc
- ***'Place effects' not easily separated from 'people effects', despite sophisticated econometrics!***

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The Limitations of Existing Theory

- **What About Regional Studies?**
- Markusen's (1999) critique – fuzzy concepts, thin empirics, policy distance
- Hudson's (2014) critique – RS says little about the spatial dimensions of the crisis
- Also, RS has focussed mainly on individual 'success stories' and 'success regions'
- ***Much less on problem regions or on the big structures and large processes of capitalist spatial economic development***

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The Limitations of Existing Theory

- *Proliferation* of concepts
- (Successful) Clusters have dominated thinking
- Mostly concerned with cluster 'internal dynamics'
- specialisation is *the* motor of regional growth
- No clear relationship between specialisation and growth-yet 'smart specialisation' has become prominent new concept with policy legs!
- We could go on; e.g. 'regional innovation systems', 'local governance', 'supply chains', 'creative classes', etc, etc ;
- Much less on how they link to wider regional, national, international growth processes;
- Much less on the importance of *connectivity between places*;
- Useful ingredients, but only part of a bigger picture but ***how do they fit together as a coherent explanation of, solution to, spatial imbalance?***

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The Limitations of Existing Theory

- So, we have the formal, equilibrium models of NEG and NUE that focus relentlessly on the advantages of agglomeration;
- A plethora of concepts and partial theories of regional development in RS, lacking integration;
- But what about the **'total place'** and consideration of the interaction between **market** and **state** – that in a mixed economy produce and shape spatial outcomes?

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The Need for a New Geographical Political Economy

- Synthesis encourages a **holistic** perspective, rather than the proliferation of separate causal notions and accounts;
- Otherwise, explanation and policy reduced to focus on specific concepts that tend to come and go;
- What is called for is a **(new) geographical political economy**;
- Which roots the process of spatial economic growth in **its institutional, financial and political structures**

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The Need for a New Geographical Political Economy

- Consider spatial economic imbalance in the UK
- UK one of most politically, institutionally and financially centralised countries in OCED – centralised in London
- This biases national policy making, policy priorities, and public expenditures in London's favour
- Spatial economic imbalance in UK is not merely due to 'market forces' or 'spatial sorting'!
- ***Spatial economic imbalance has become an institutionalised process***

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The Need for a New Geographical Political Economy

- No small task
- Theoretical framework will require identifying and agreeing key organising principles
- Should revive/extend previous frameworks
- Need to embrace and incorporate broad conception of Circular and Cumulative Causation which was once seen as a core principle of heterodox political economy
- Non-equilibrium framework
- **Increasing returns and agglomeration externalities, are inseparable from historical, institutional and political processes**

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Towards a new model; a reassessment of UK spatial political economy

NOT JUST:

- More agglomeration;
- Bits and pieces of new spatial policy initiatives;
- Or hot-wiring better more co-ordinated spatial planning ('combined authorities')
- Piecemeal boosts to innovation and pepper potted improvements to infrastructure outside London

BUT development of a new approach that recognised the spatial impacts of the nation's

- Core institutions;
- Governance structures;
- Political arrangements and
- Policy-making machinery

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An historic opportunity

- Constitutional change in Scotland;
- New powers for Wales;
- New thinking in England that might go beyond the largely un-coordinated plethora of local and city deals of recent years towards a new spatially devolved model of economic development;
- Heseltine and 'northern powerhouse' based on 'super metro-regions'-metro-devo-all suggestive that there is the potential for constructing a new spatially devolved model of political governance within the UK.

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Towards a new model; a reassessment of UK spatial political economy

- At the present time all the hall marks of *ad-hoc* policy development and piecemeal reform with some cities and regions given devolved powers whilst others are not-highly uneven, unequal, potentially divisive that may promote further spatial imbalance;
- What is needed is a coherent and comprehensive UK wide strategy and long term plan for addressing spatial imbalances that recognises constitutional realities within a federal territorial structure across the UK;
- Some key building blocks to consider;
 - Decentralising and devolving governance;
 - Institutional acceptance of the spatial balance agenda;
 - Decentralising public administration;
 - Fiscal devolution and;
 - Establishing a regional investment banks.

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Decentralising and devolving governance in England

- Asymmetrical and uneven nature of governance arrangements in the UK is acute;
- Enhanced decentralisation could provide the greater freedoms, flexibilities, resources and fiscal capacity to enable meaningful decisions to be made and funded at appropriate scales;
- Partition the whole of the United Kingdom into economically meaningful city-regions, interconnected cities and their surrounding hinterlands.

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New institutional coordination

- Require an institutional framework that can initiate and facilitate the agenda of spatial rebalancing;
- Set high level political objectives and policy targets for the more economically balanced development of the United Kingdom;
- National planning framework for UK as currently exists in Scotland;
- Coordinate the decentralisation of public administration;
- Establish objectives and system and associated investment priorities for a UK wide infrastructure.

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Fiscal devolution

- Local areas start with an inherited pattern of land use and a resource base and institutions that were tailored to another era;
- Legacy of the past weighs heavily on adjusting to new economic futures;
- To achieve renewal and re-orientation sustained and substantial effort on several fronts is required including the promotion of entrepreneurship, innovation, investment and human capital formation as well as modernising infrastructure;
- New ways have to be found to increase the level of resources to speed up the process of change

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Fiscal devolution (continued)

- Local authorities very heavily constrained since the resources they receive are mainly hypothecated and allocated on a population basis;
- In the United Kingdom the proportion of tax set at the local level is equivalent of 1.7% of GDP. This compares with 15.9% in Sweden, 15.3% in Canada, 10.9% in Germany and 5.8% in France;
- Also, in addition, the proportion of total national tax revenues to local government has actually been falling for forty years from just over 11% in 1975 to 4.9% in 2012.

With a relative lack of resources and the need to address considerable change in their physical fabric and labour markets local authorities have been forced to rely on relatively inadequate discretionary resources provide either from the UK government directly to deliver their growth agendas and/ or work with central government bodies like the Homes and Communities Agency.

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Decentralising the financial system

- Overly centralised and concentrated financial system;
- Banks shifted away from lending to industry in favour of lending to other financial institutions and the mortgage market;
- Funding new investment major issue-what about 'Advanced Manufacturing Bonds';
- Emulate German banking system with a significant regional dimension.

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A call for action

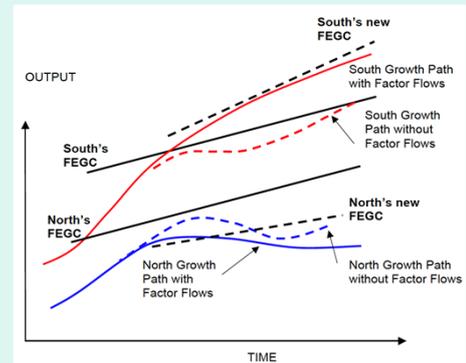
- Growth gap between the south and the north (and their respective cities) is long-standing and cumulative;
- Problem well beyond economics of urban agglomeration and is deeply rooted in the spatially biased nature of the national political economy;
- New perspective called for;
- Valid case for devolving powers to England's city regions so as to allow them to harness their economic potential;
- A nation wide federated system of public finance and economic governance.

The most appropriate territorial units, the powers they should have require considered and informed debate.

Without such an approach the spatial imbalance that has so long characterised the national economy of the United Kingdom will continue and so will the loss of social cohesion and economic welfare that it creates.

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Combined and Uneven North-South Development



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