

Spatially Unbalanced Growth in the British Economy

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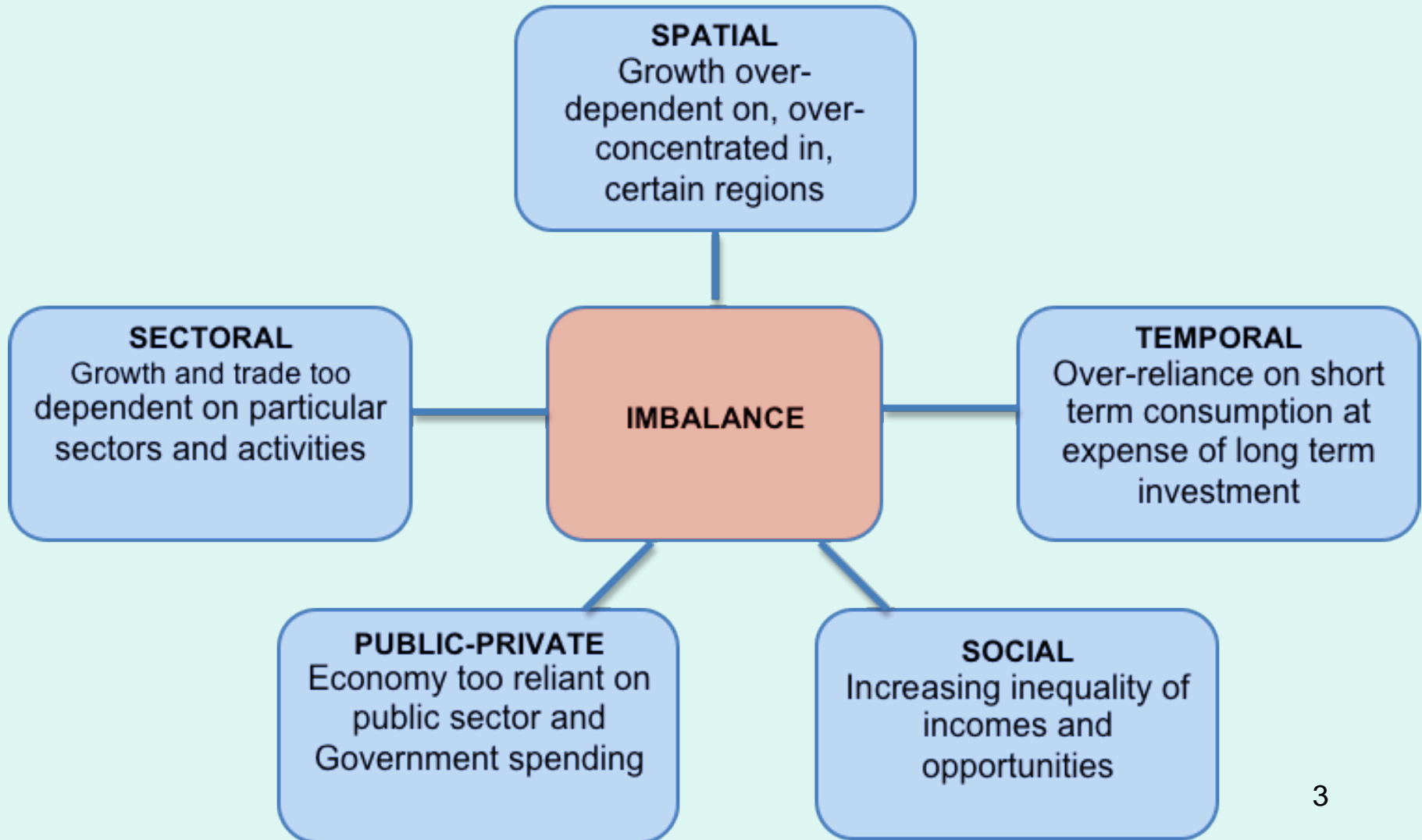
Local Economic Growth: Recession, Resilience and Recovery
11th-12th July 2013, McGrath Centre, St Catharine's College, Cambridge

This work forms part of a larger project; How Regions React to
Recession: Resilience, Hysteresis and Long Run Impacts (ESRC Grant
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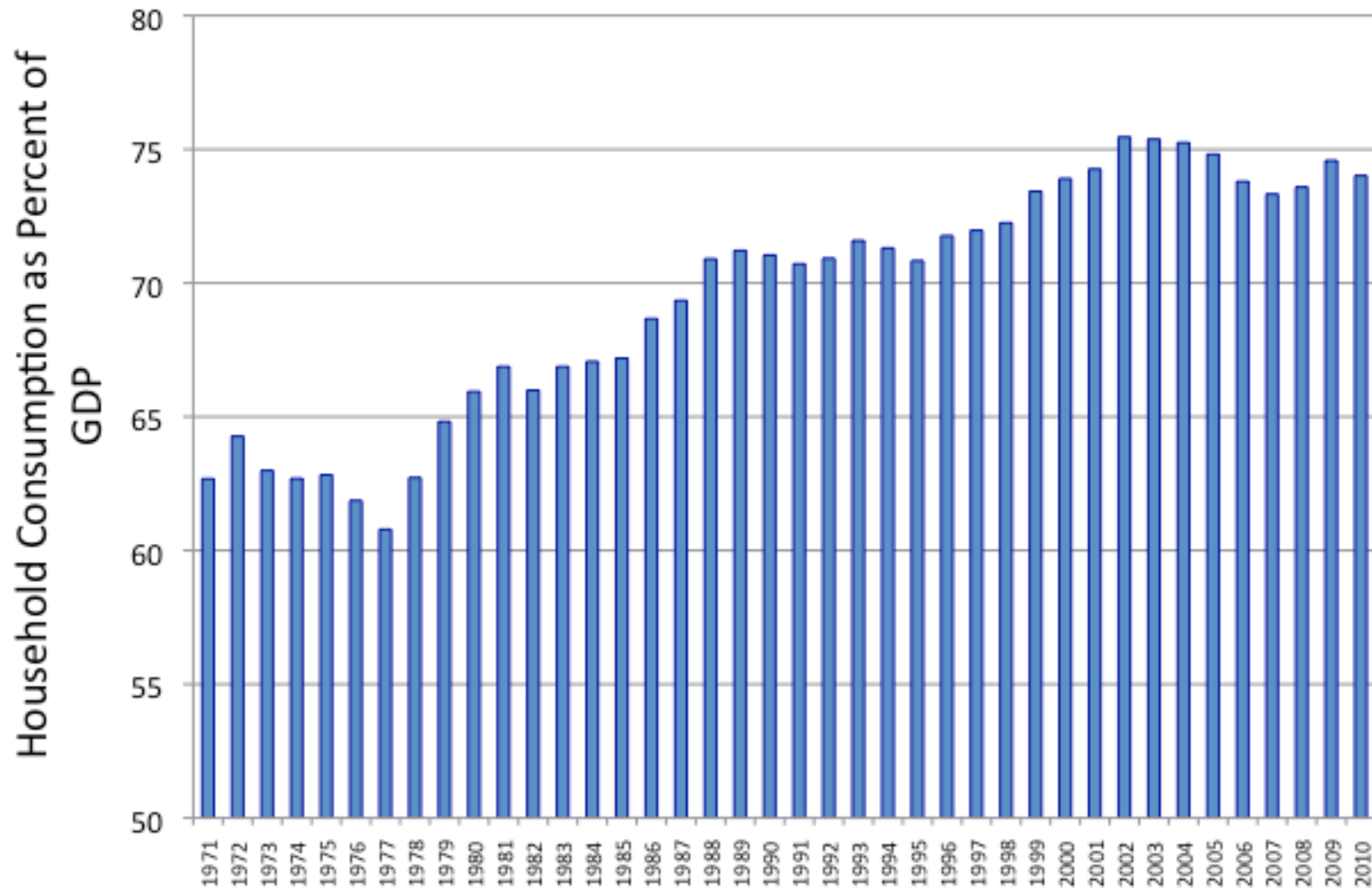
The New Discourse of 'Rebalancing'

- Financial crisis of 2007-08, and subsequent 'Great Recession' has provoked new political discourse of 'rebalancing the economy'
- Argued that part of the reason for the crisis was that British economy has become unbalanced in several ways
- And that 'rebalancing' is necessary both for recovery, and for ensuring a more stable mode of growth

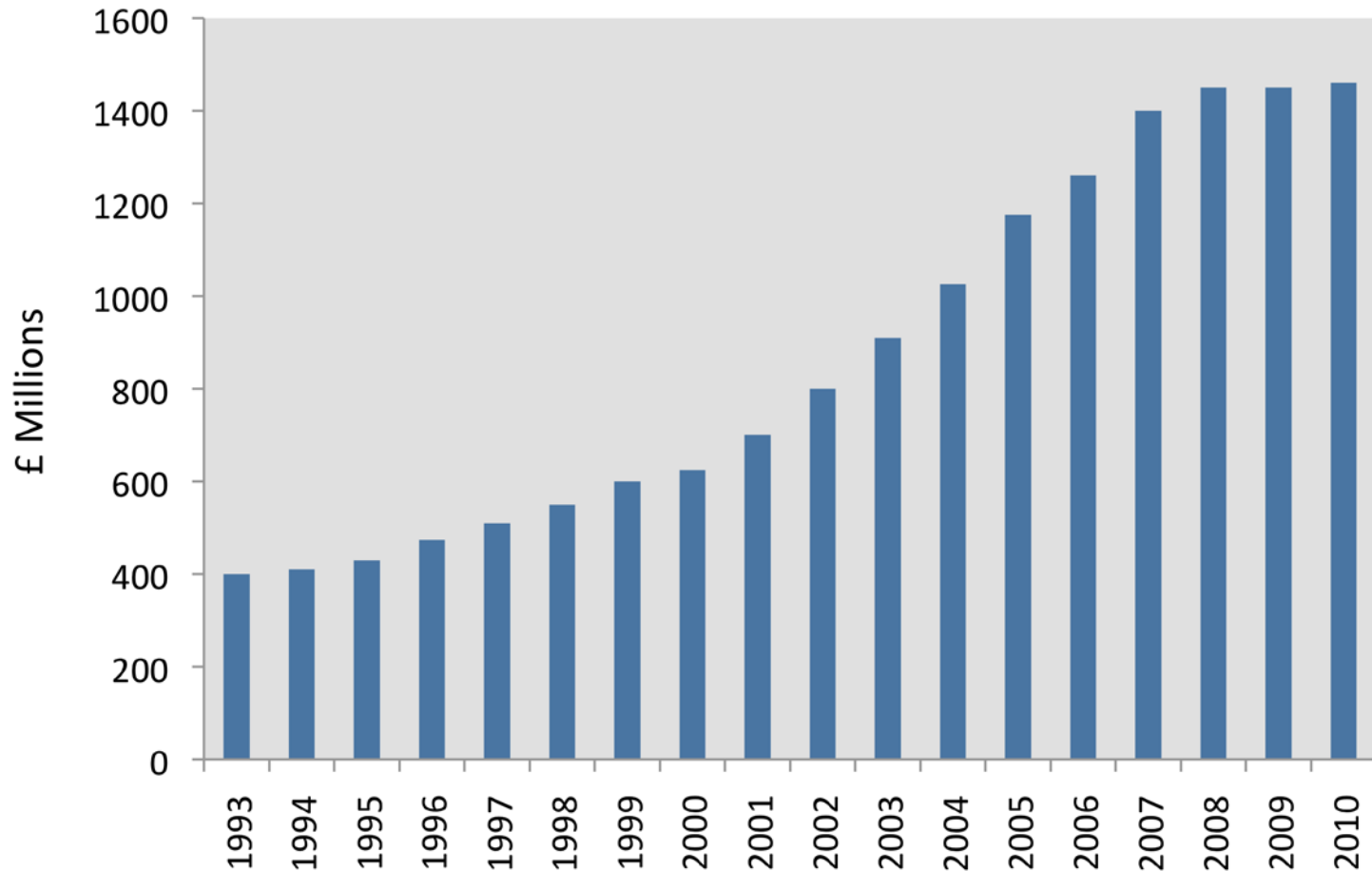
The Different Dimensions of Economic Imbalance



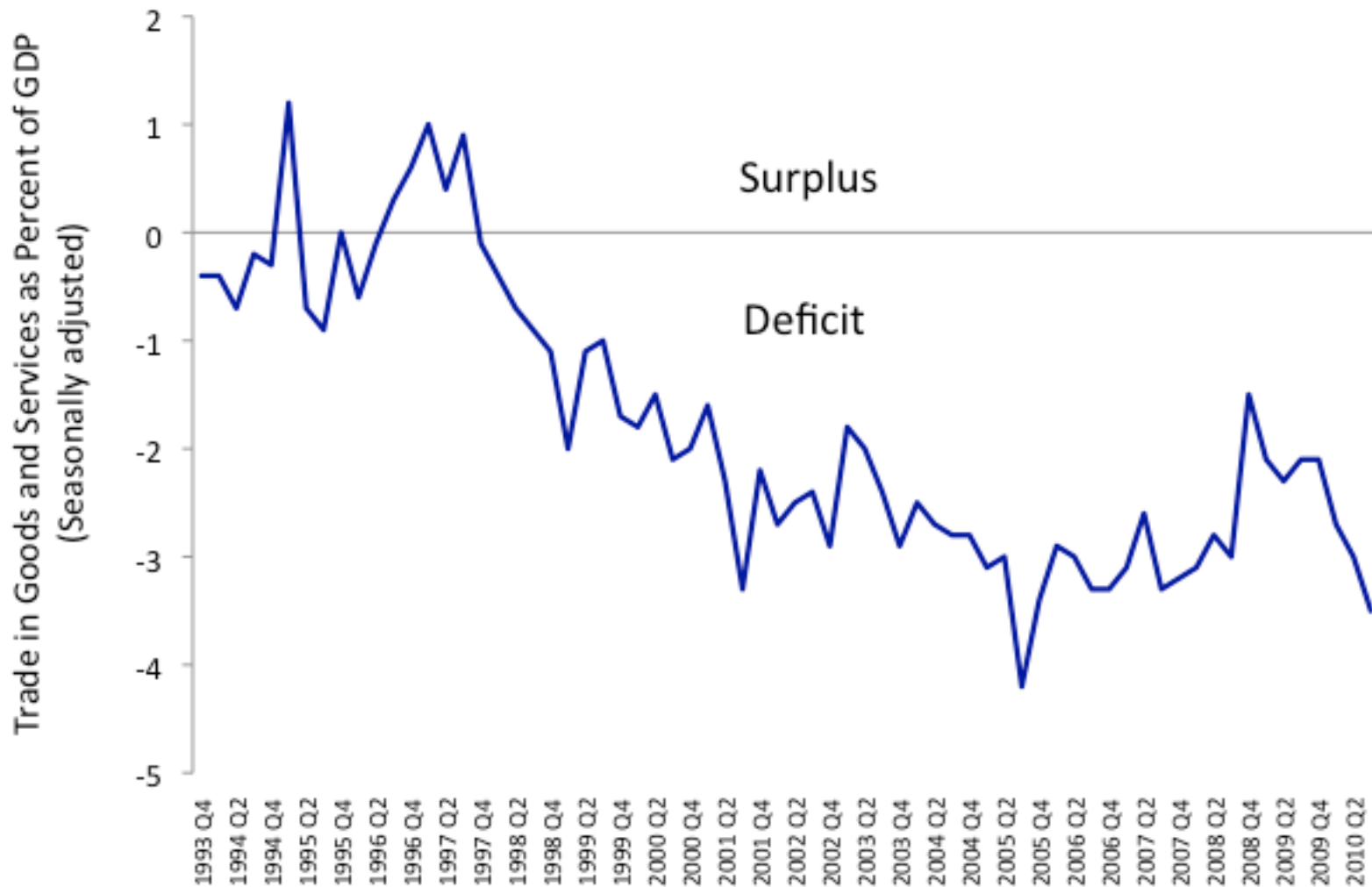
The Growing Dependence of Economic Growth on Consumption (1971-2010)



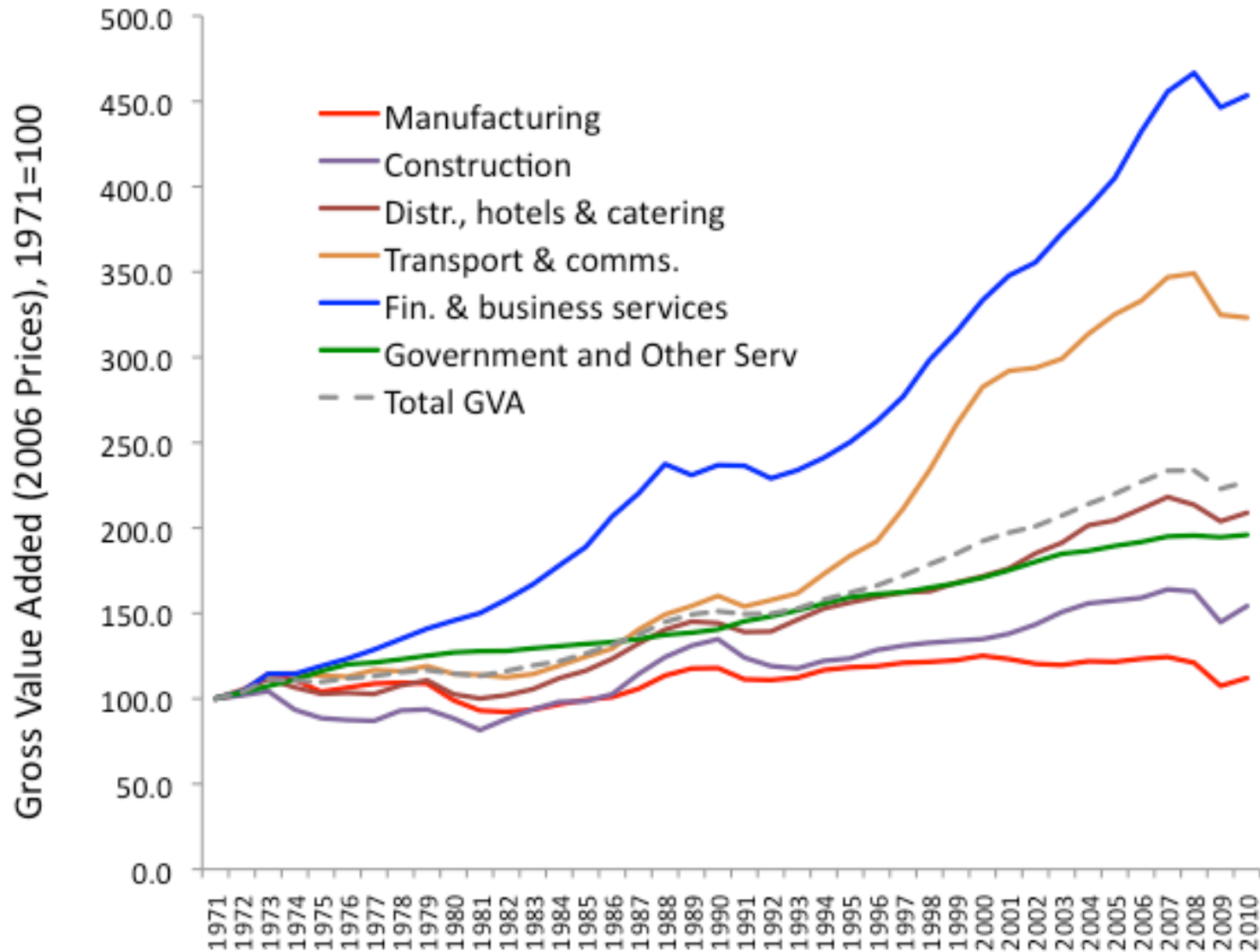
The Debt Driven Economy: UK Household Debt, 1993-2010



The Trade Imbalance in Goods and Services (Percent of GDP), 1993-2010



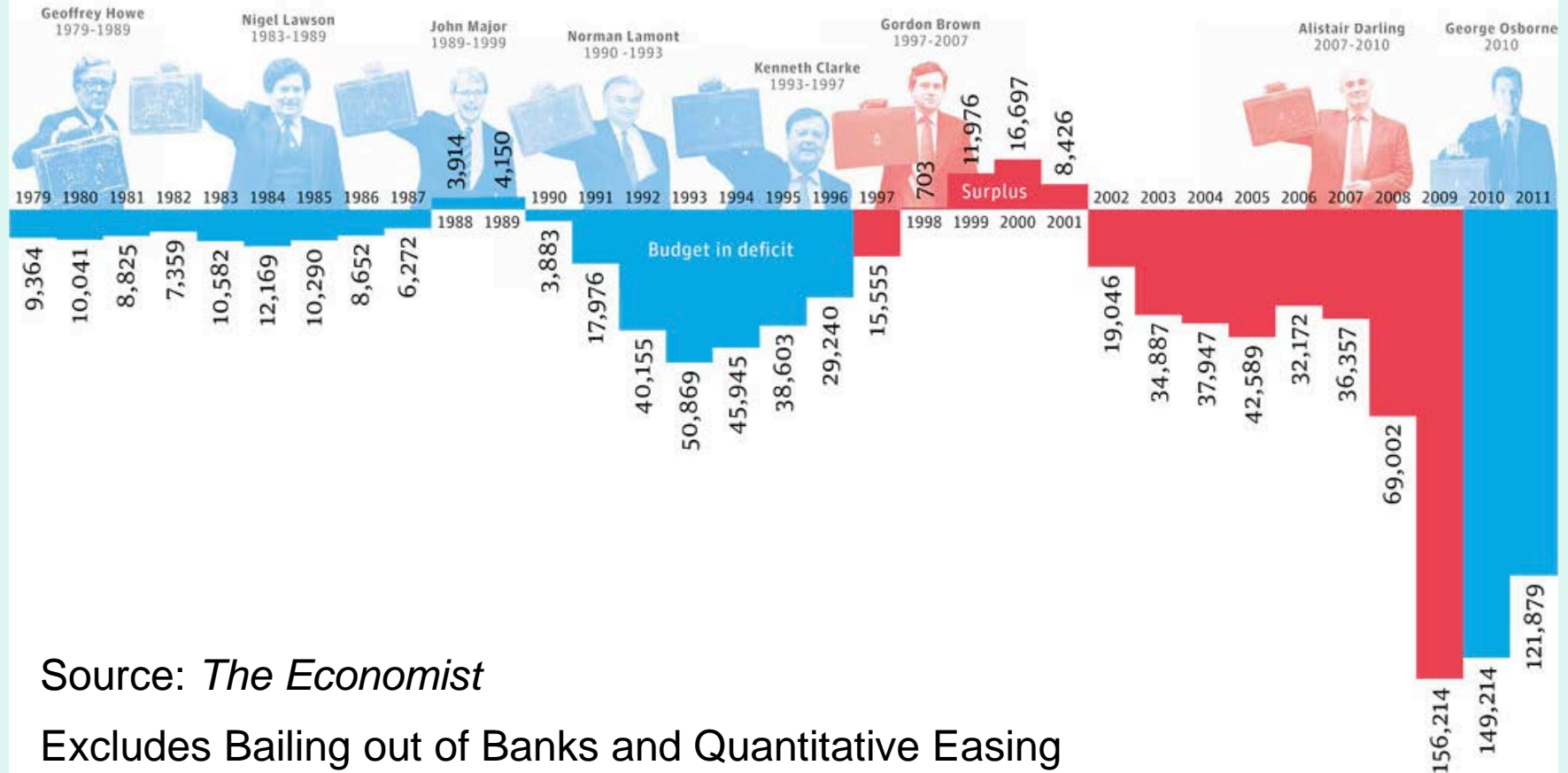
Growth by Major Sector (GVA, 2006 Prices), 1971-2010 (1971=100)



UK Government Budget Deficit and Borrowing, 1979-2011 (£million)

UK budget deficit and borrowing

Net borrowing, £m (exc financial interventions) ♦ Conservative ♦ Labour



Source: *The Economist*

Excludes Bailing out of Banks and Quantitative Easing

The New Discourse of ‘Rebalancing’

“Our economy has ***become more and more unbalanced***, with our ***fortunes hitched to a few industries in one corner of the country***, while we let other sectors like manufacturing slide.....It has become far too dependent on the public sector, with over half of all jobs created in the last ten years associated in some way with public spending”.
(*David Cameron, Speech on the Economy, 2010*)

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)

The New Discourse of 'Rebalancing'

- Ideas of imbalance and rebalancing not new - back in 1940, *Barlow Commission* argued that British economy had become too spatially unbalanced
- That this was largely due to regional patterns of industrial specialisation
- Much of Northern Britain was burdened by old declining industry
- While London and South East attracted bulk of the new manufacturing industry of interwar years

The New Discourse of ‘Rebalancing’

“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)

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

Spatially Unbalanced Growth and the 'North-South Divide'

- Uneven regional development has long been a feature of Britain's economic landscape
- In 19thC distinctive patterns of regional industrial specialisation
- A 'North-South Divide' began to open up in late Victorian period. Intensified in inter-war years – the Depressed Areas
- Disguised somewhat during Post-War Boom
- Resurfaced in 1980s – subject of intense debate
- By mid-late 1990s argued by some that the divide had disappeared

Uneven Regional Growth in Britain, 1871-1911

	Growth of Real GDP (% per annum)	Growth of Real GDP per capita (% per annum)	GDP per capita (UK=100)
	1871-1911	1871-1911	1911
London	2.33	1.14	165.6
South East	2.19	0.96	124.6
East Anglia	0.44	0.16	76.3
South West	1.04	0.68	85.7
West Midlands	1.53	0.56	78.4
East Midlands	1.59	0.36	90.6
Yorkshire-Humberside	1.89	0.63	89.5
North West	1.86	0.54	97.2
North	1.75	0.40	79.2
Wales	2.14	0.80	90.1
Scotland	1.95	1.06	102.1
GB	1.78	0.89	100.0

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).

- But in fact this has not been the case

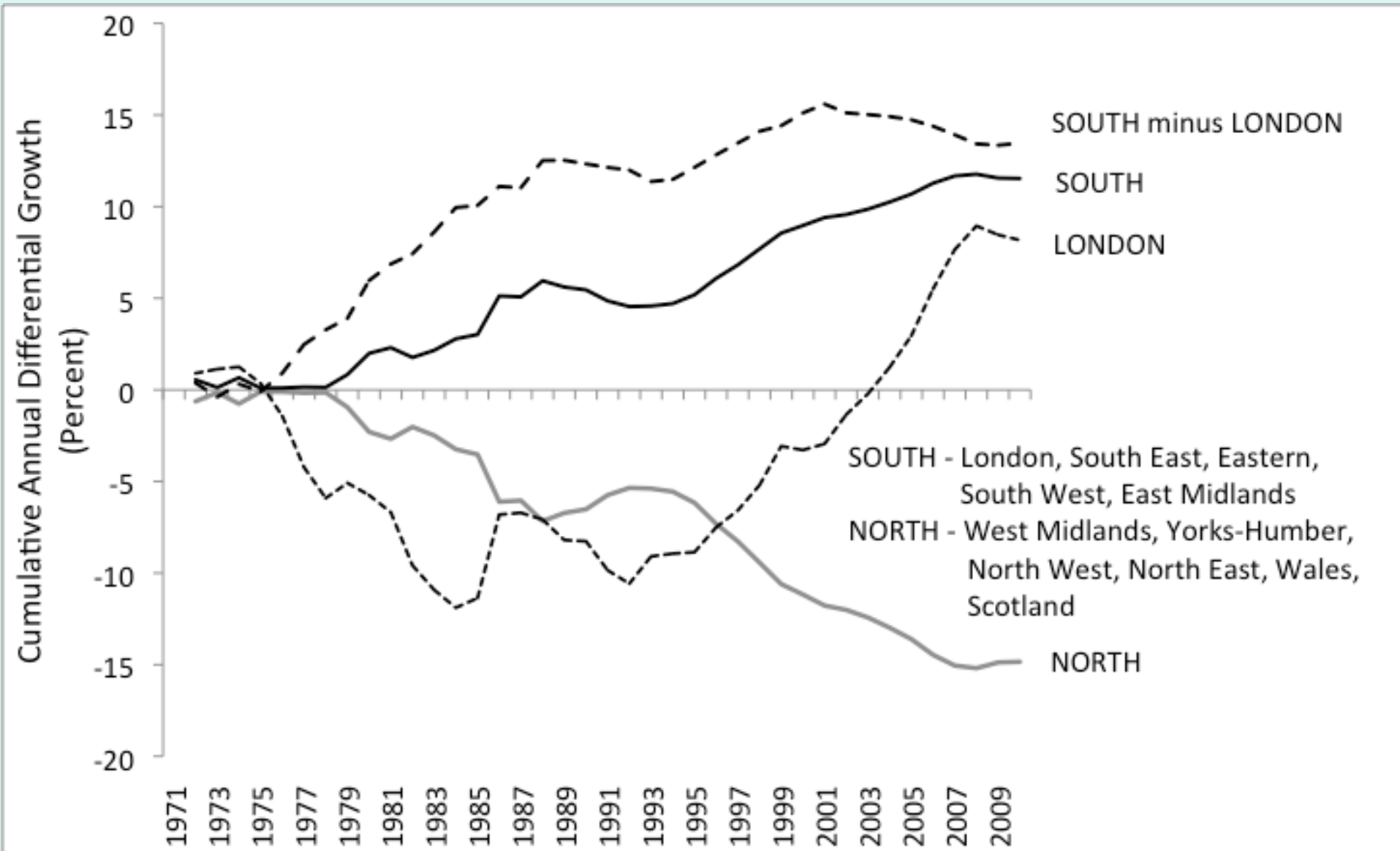
Cumulative Regional Output Growth Gaps (GVA, 2006 prices), 1971-2010



Cumulative Regional Employment Growth Gaps 1971-2010



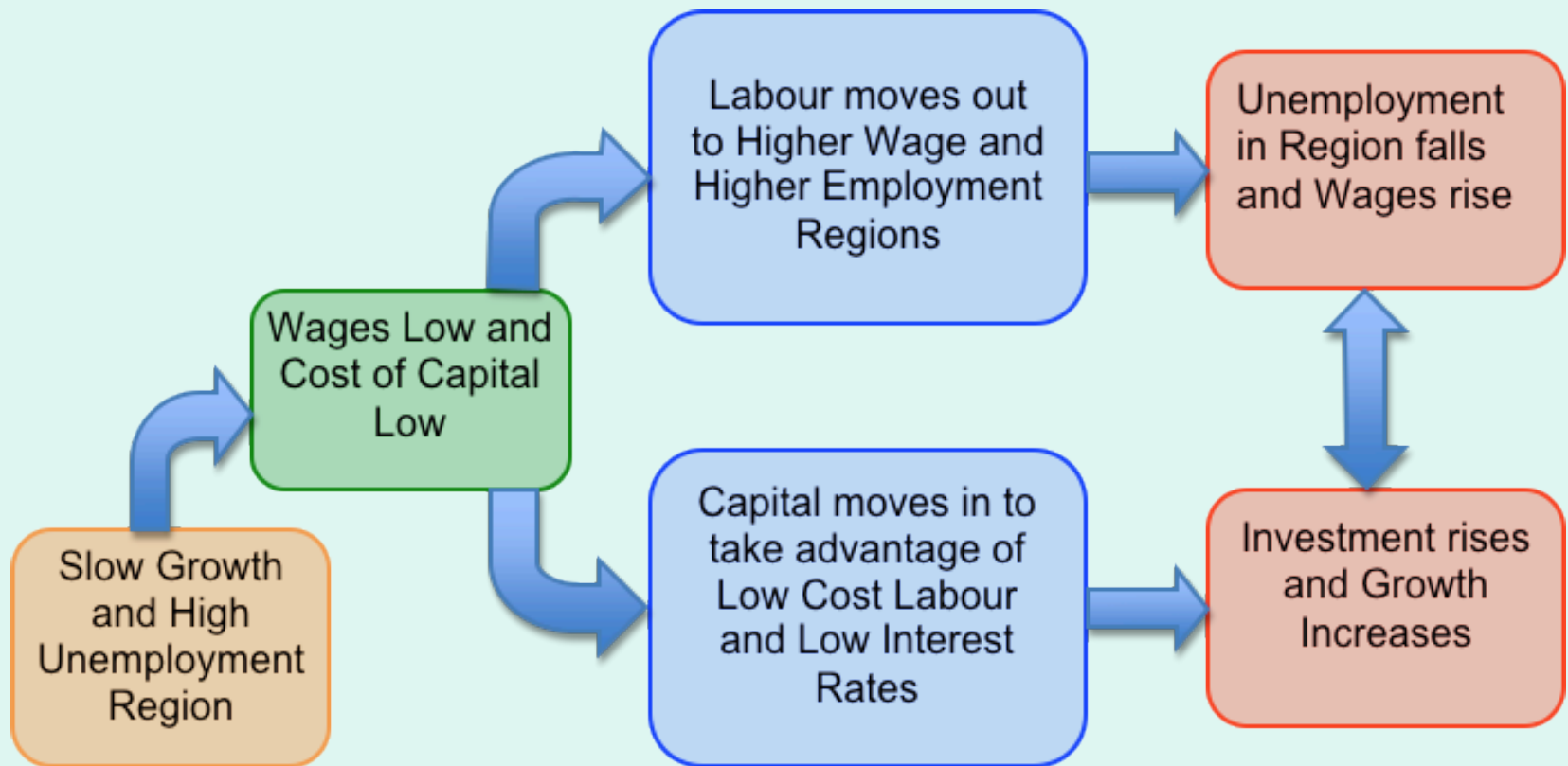
Cumulative North-South Growth Gaps (GVA, 2006 prices), 1971-2010



Spatially Unbalanced Growth and the 'North-South Divide'

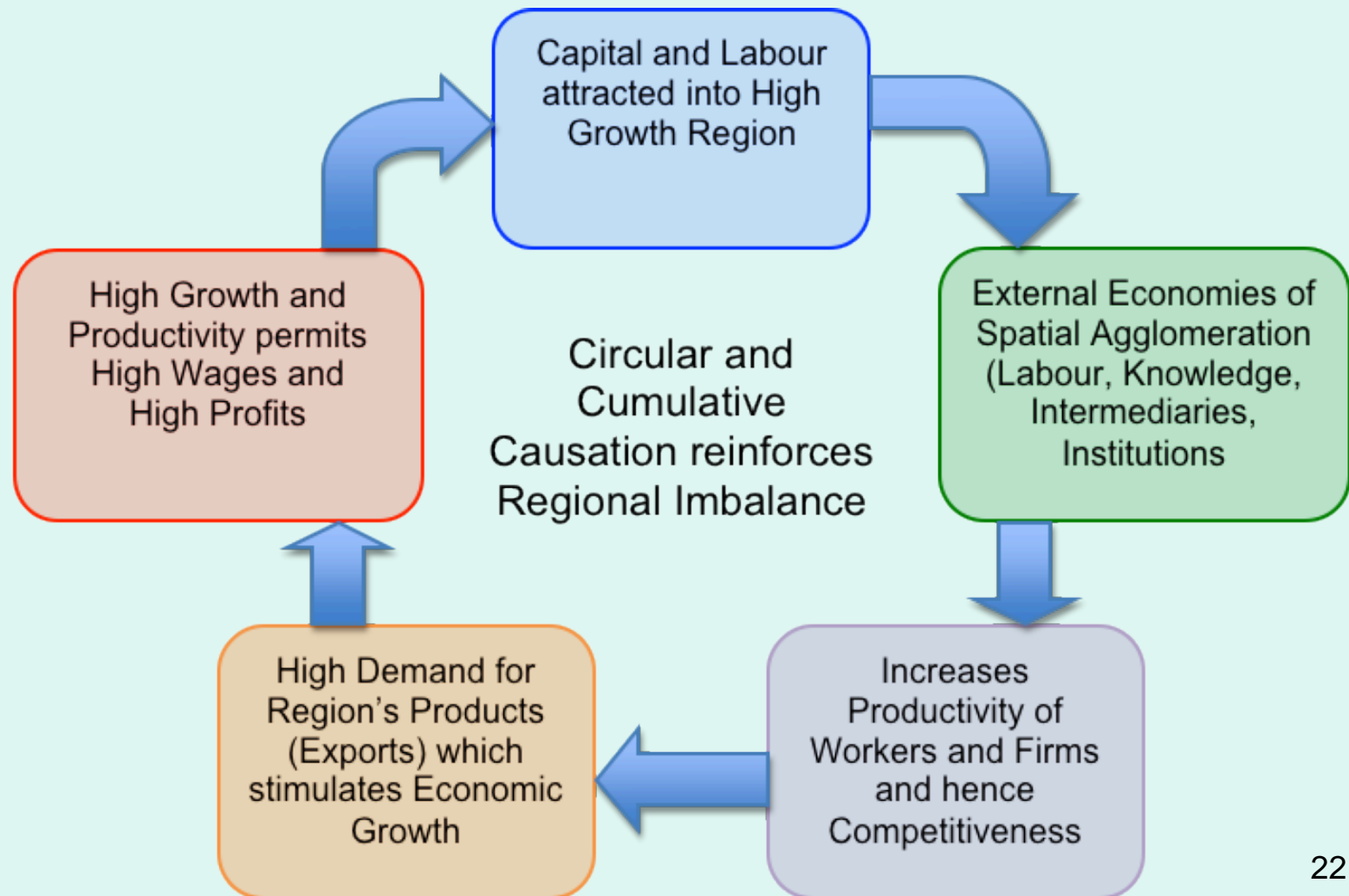
- Regional imbalances in economic growth have *not* disappeared
- High degree of 'path dependence' in uneven regional growth and development
- Striking 'turnaround' in London's growth path since early-1990s
- What does economic-geographic theory have to say?
- How far has regional economic imbalance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

Conventional Theories of Self-Correcting Regional Convergence

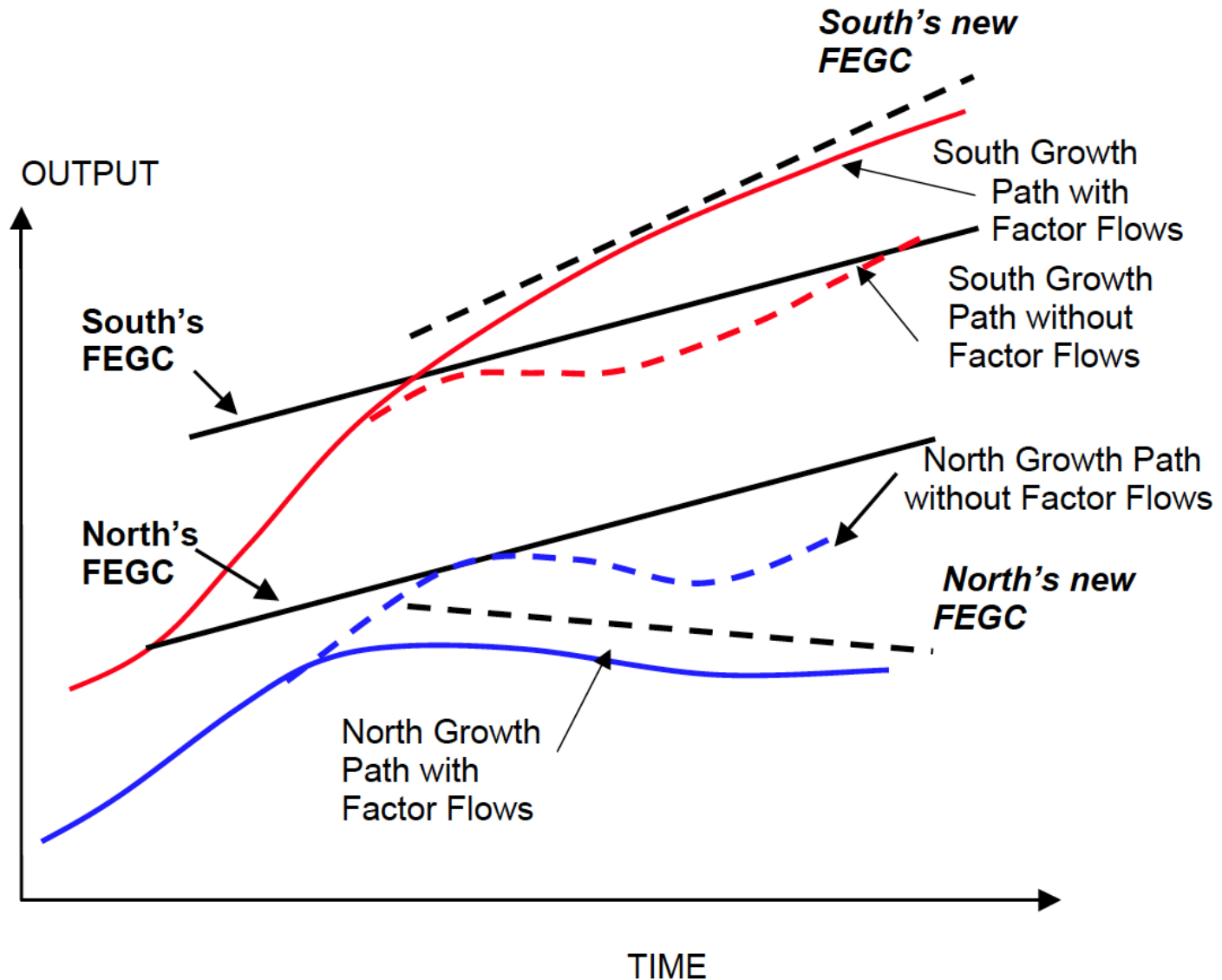


How Mobility of Factors is supposed to correct Regional Imbalances in Growth

Increasing Returns Theories of Regional Divergence



Combined and Uneven North-South Development



Economic Structure and Spatial Imbalance

- Most theories stress the role of industrial structures and 'competitiveness' effects
- Simple way of exploring this is to use dynamic shift-share procedure
- Decomposes regional growth:

Regional Growth =

National growth effect

+ Economic structure effect

+ Region specific ('competitiveness') effect

+ Structure/region interaction effect

Identifying Structural and 'Competitiveness' Effects in Regional Growth

- More technically:

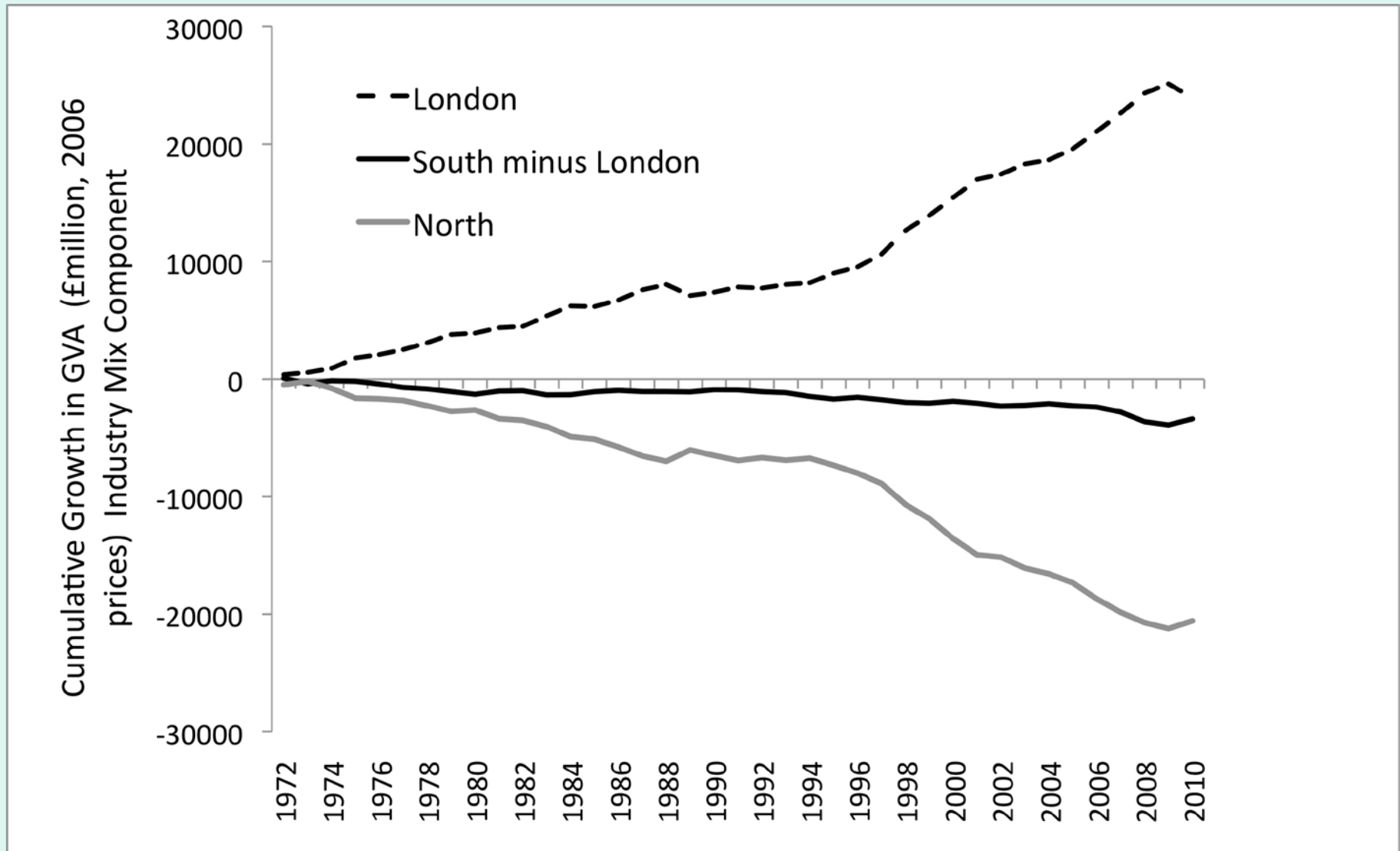
$$X_j^t(g_j - g_n) = \sum_i X_{ij}^t(\hat{g}_j - \hat{g}_n) + \sum_i X_{ij}^t(\hat{g}_{in} - \hat{g}_n) + \sum_i X_{ij}^t(g_{ij} - \hat{g}_{in} - \hat{g}_j + \hat{g}_n) + \sum_i X_{ij}^t(\hat{g}_n - g_n)$$

(1) (2) (3) (4) (5)

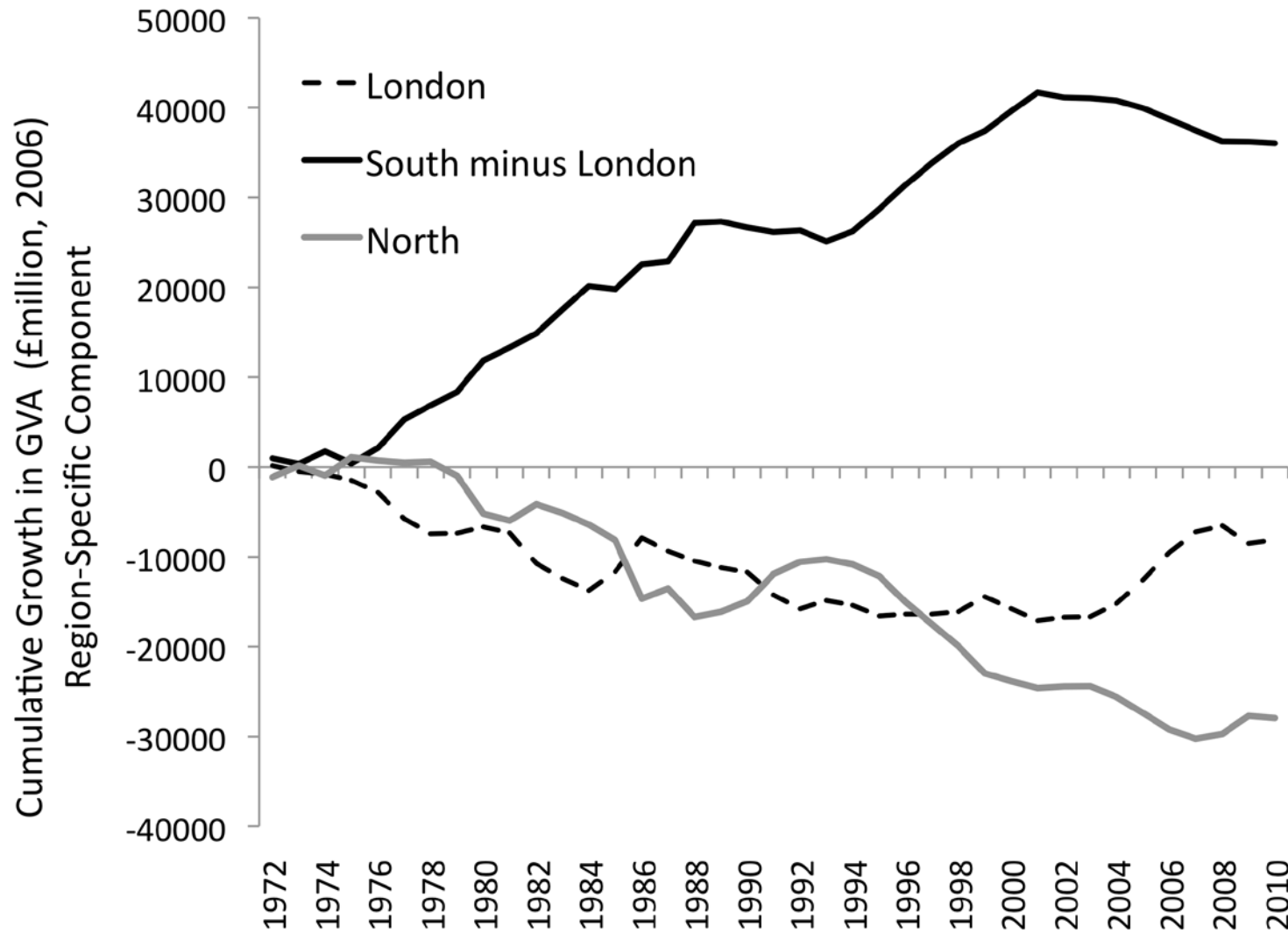
Where X is output (GVA) or employment, g =growth rate, j =region, i =sector, n =nation,

- (1) Difference in regional and national growth;
- (2) Region-specific component of regional growth;
- (3) Regional economic structure effect;
- (4) Interaction effect;
- (5) Residual

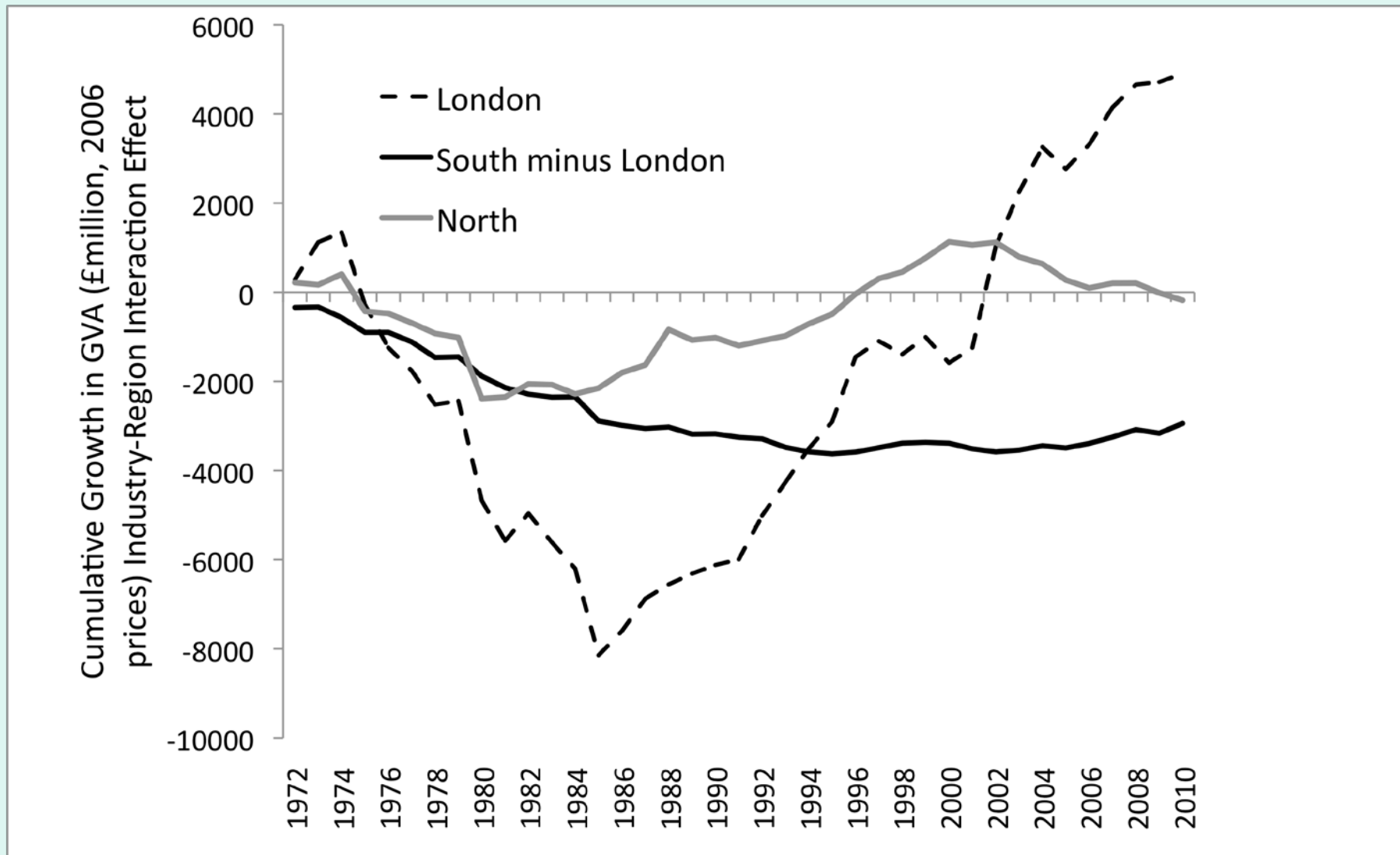
Industry-Mix Component of Cumulative North-South GVA Growth Gaps, 1971-2010



'Competitiveness' Component of Cumulative North-South GVA Growth Gaps, 1971-2010



Industry-Region Interaction Component of Cumulative North-South GVA Growth Gaps, 1971-2010



Structure versus 'Competitiveness'

- North still suffers from unfavourable industrial structure
- London has the most favourable structure
- But regional (competitiveness) component is *equally* as important as the industrial mix
- The industry-region interaction is of key interest for London
- Timing of its turnaround is very much linked to the resurgence of financial and business services after late-1980s

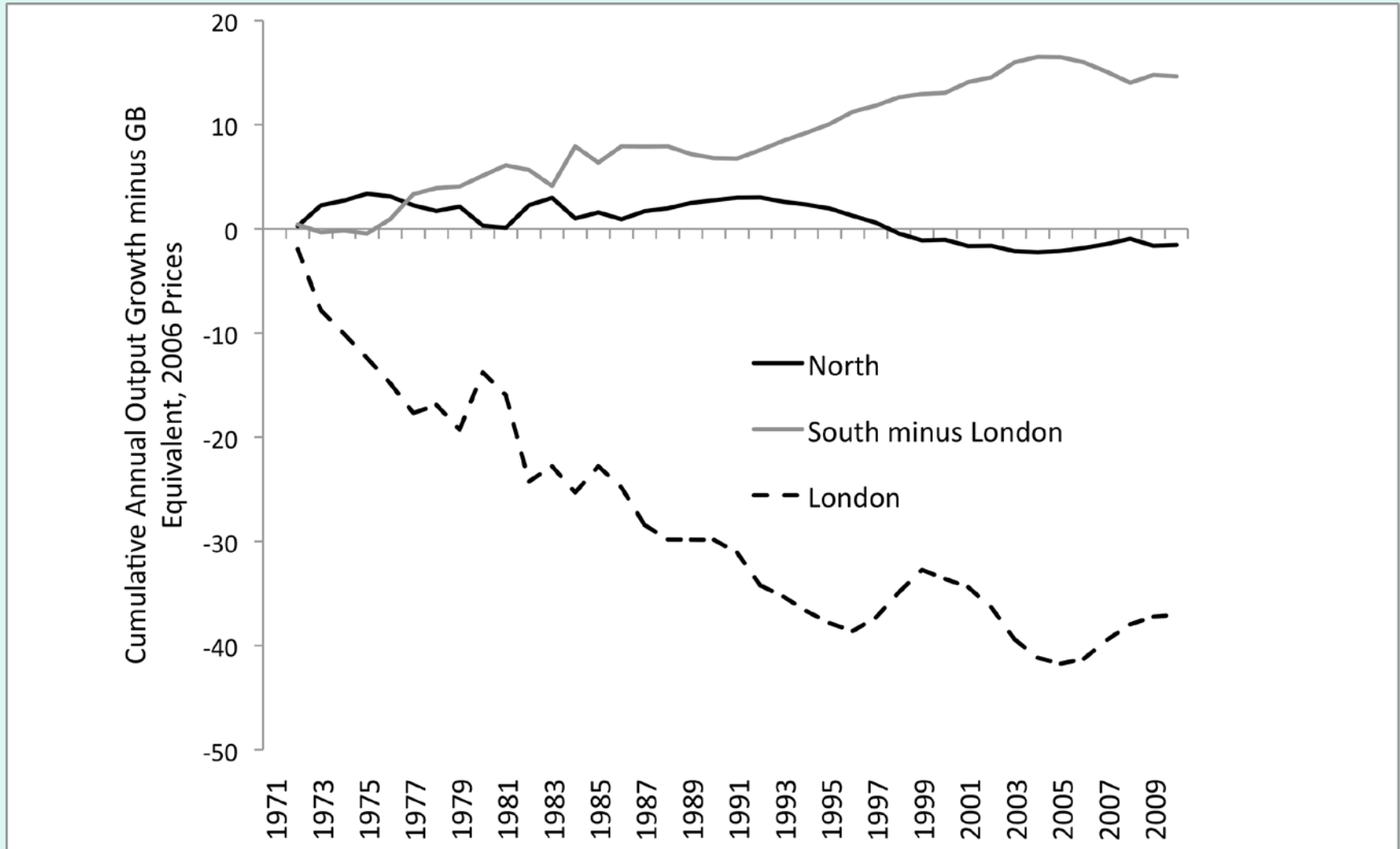
A Tale of Three Sectors

- Government thinking on rebalancing has tended to focus on
 - ◆ Reducing reliance on FBS and the public sector
 - ◆ Reinvigorating (advanced) manufacturing
- Very different histories over the past 40 years
 - ◆ Deregulation and liberalisation of FBS in mid-1980s
 - ◆ Growing dependence on the public sector
 - ◆ Sustained decline in manufacturing
- Moreover, different regional trajectories

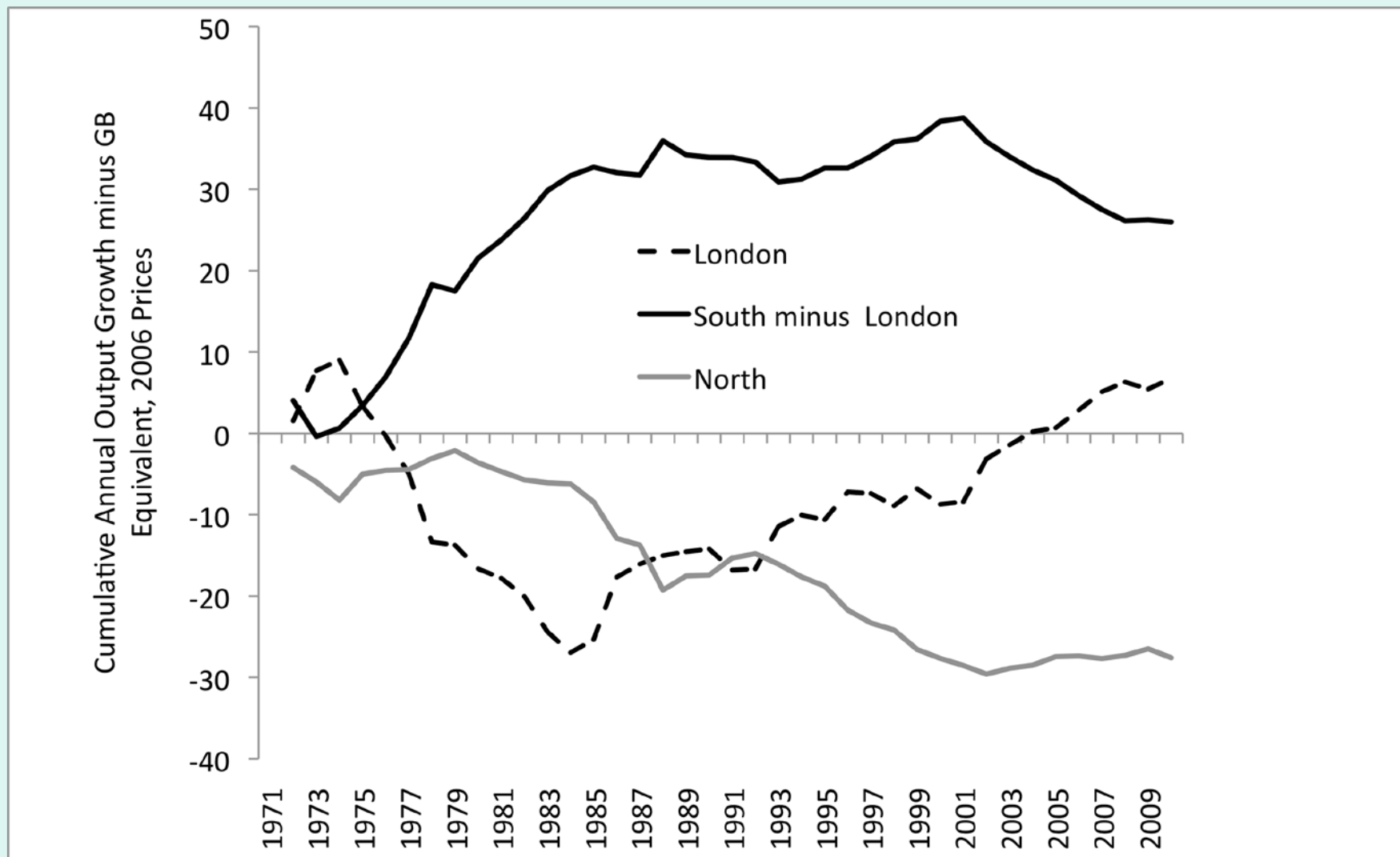
Growth of Output (GVA, 2006 prices) by Sector By Major Region 1971-1990 and 1990-2010

% Growth over period	Manufacturing		FBS		Public Sector	
	1971-90	1990-2010	1971-90	1990-2010	1971-90	1990-2010
LONDON	-12.5	-11.8	102.9	133.3	29.7	46.5
SOUTH minus LONDON	26.3	1.9	226.9	75.6	36.4	39.6
NORTH	42.6	-9.8	101.6	72.7	46.6	38.1

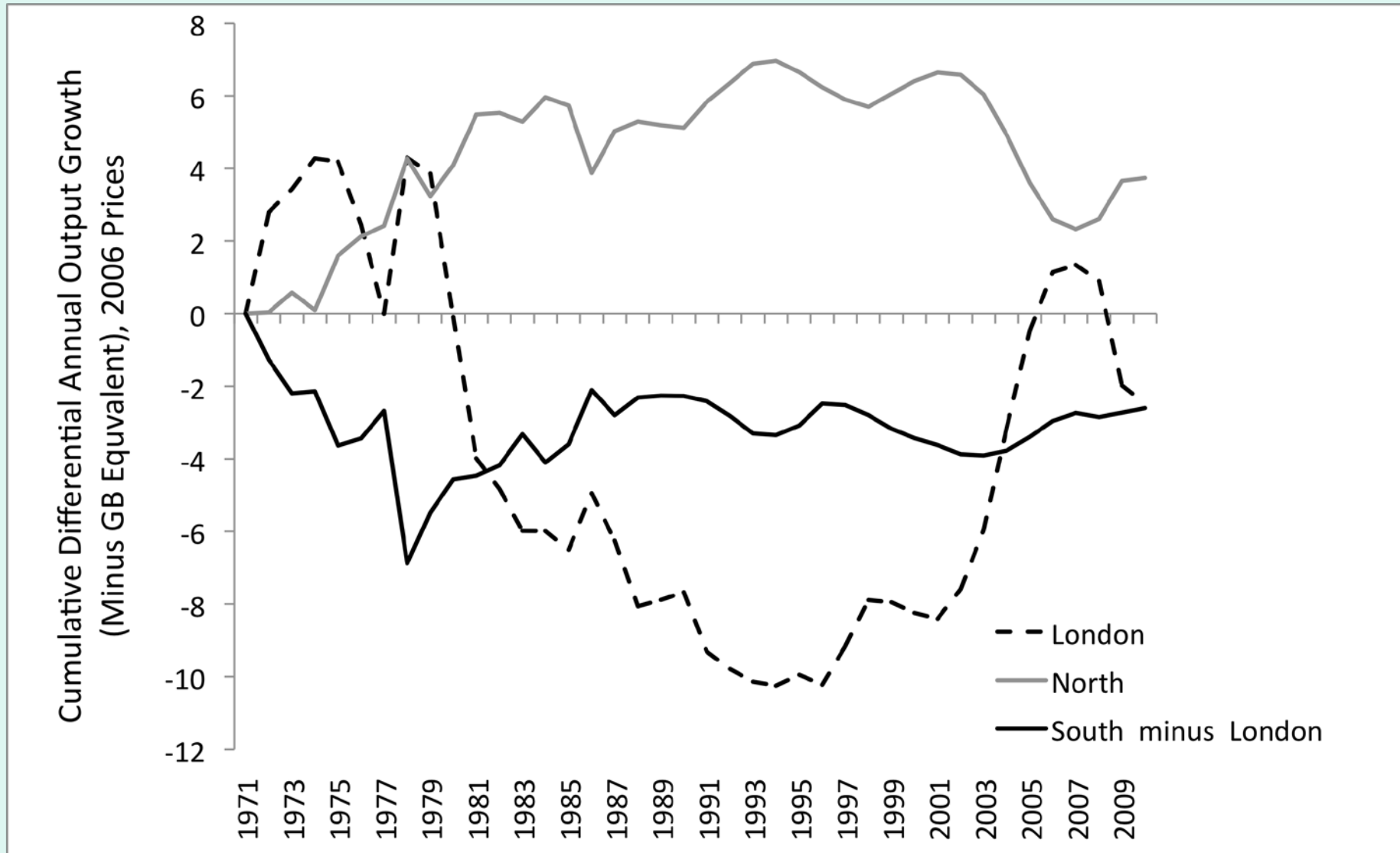
The North-South Gap in Manufacturing Growth (GVA, 2006 prices), 1972-2010



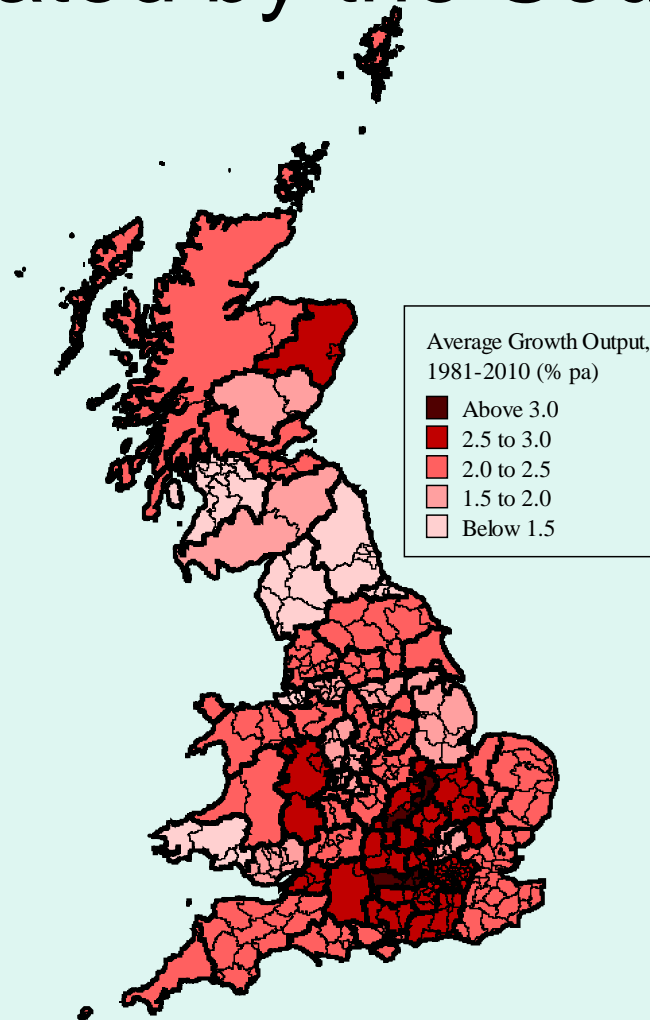
The North-South Gap in Financial Services Growth (GVA, 2006 prices) 1971-2010



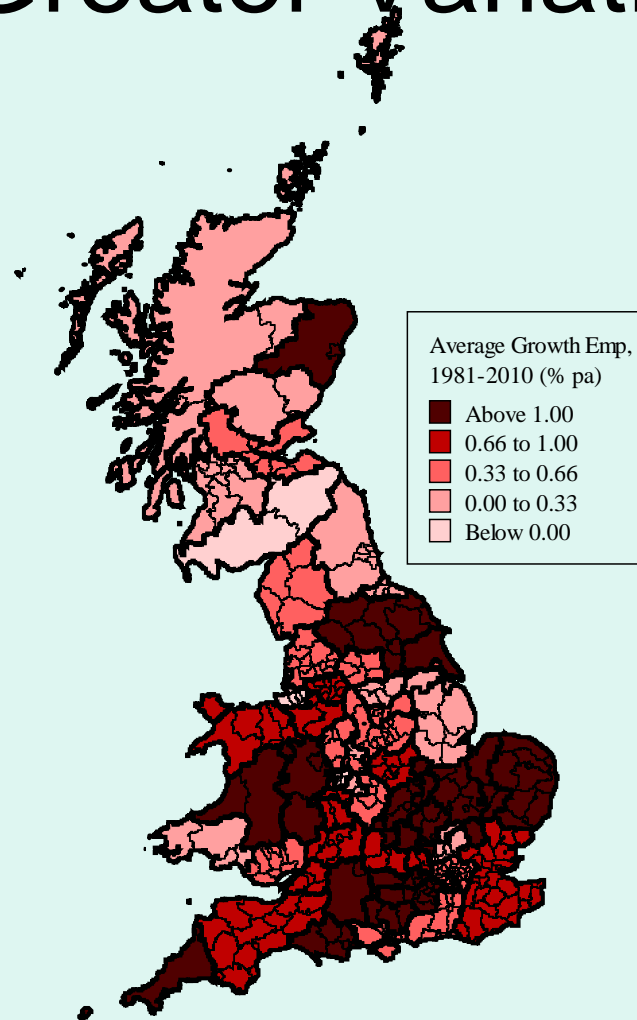
The North-South Gap in Public Sector Growth (GVA, 2006 prices), 1971-2010



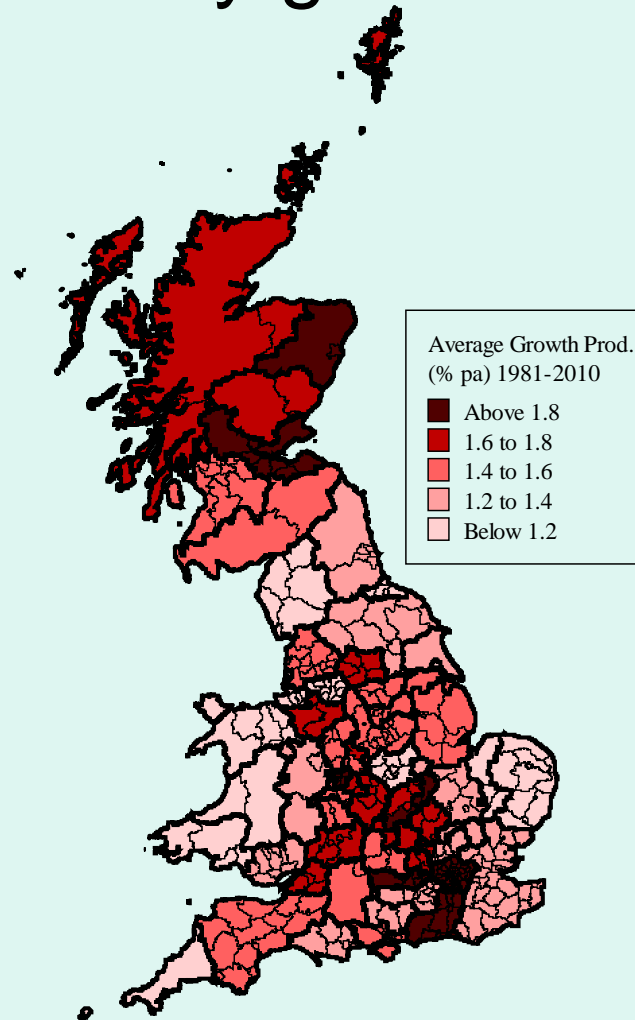
Overall Output Growth 1981-2010 Dominated by the South of GB



Although Employment Shows Greater Variation

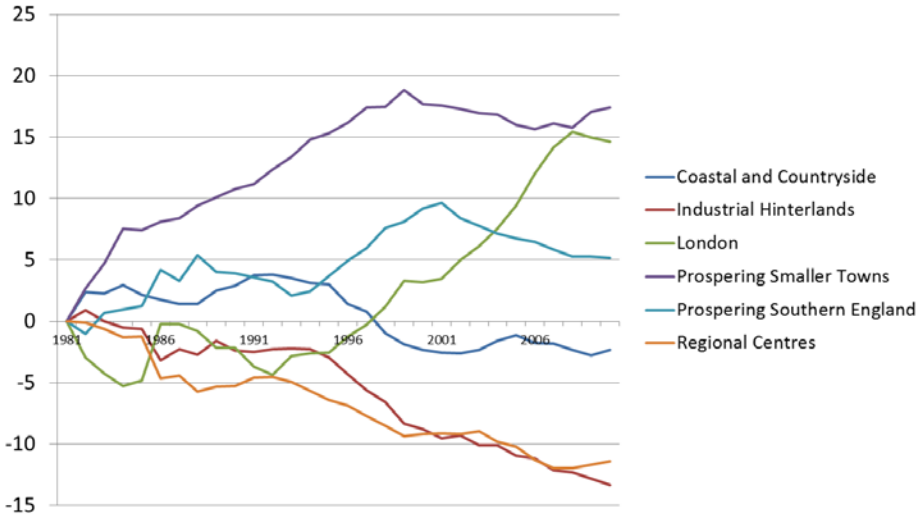


Core English LEPS have the highest Productivity gains 1981-2010

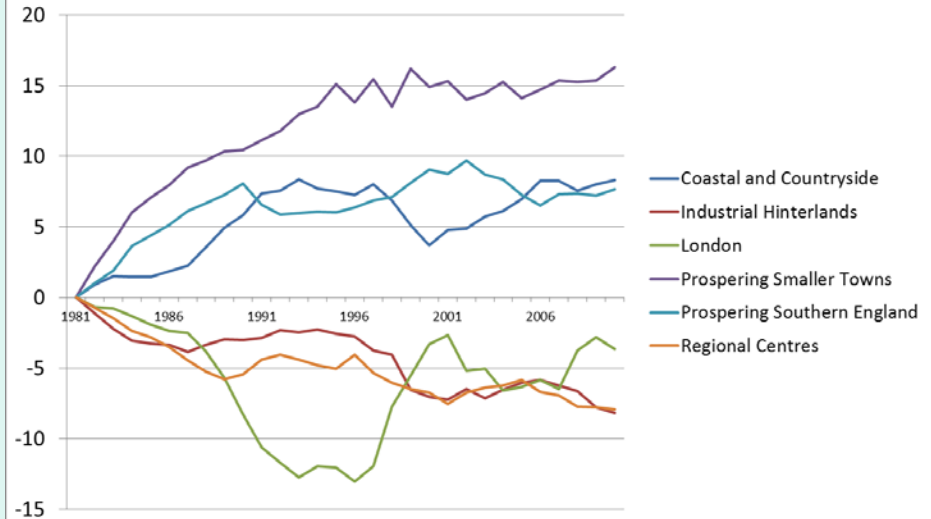


Typology averages; grouped relative to GB total (sum LEPs)

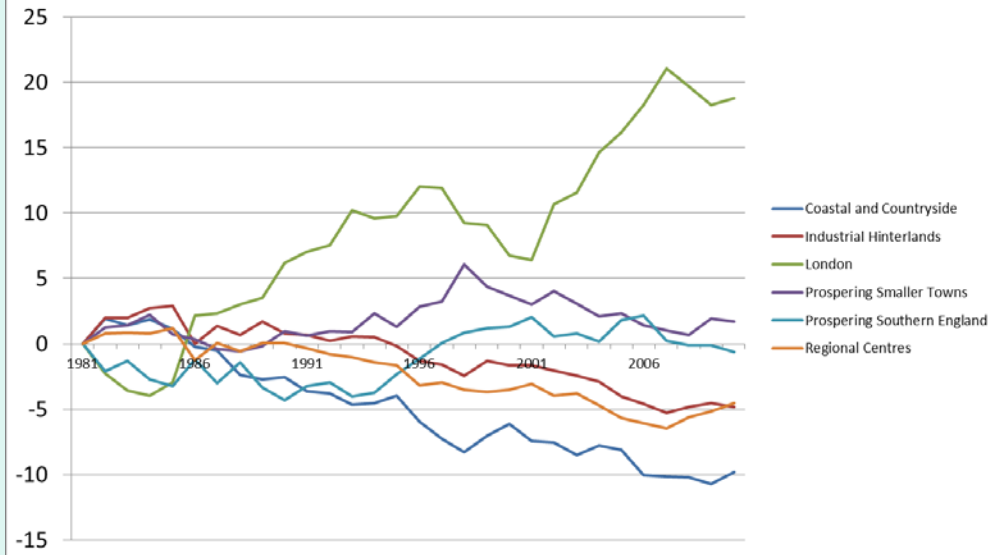
Cumulative Output Growth Differential from Area Total



Cumulative Employment Growth Differential from Area Total

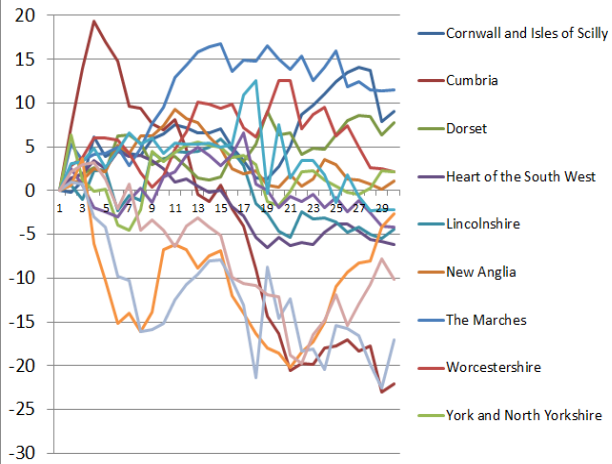


Cumulative Productivity Growth Differential from Area Total

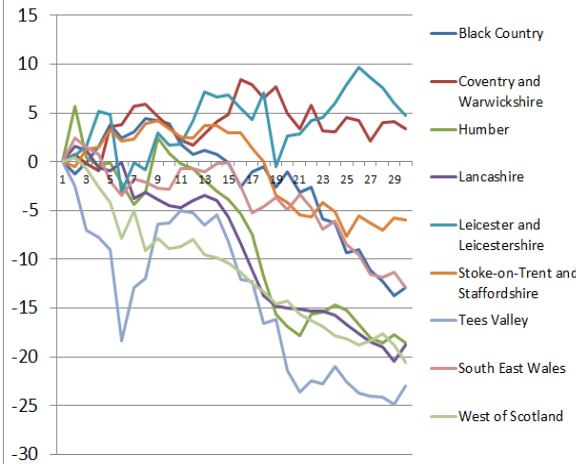


Within Typologies – GVA Analysis (GB-sum LEPs)

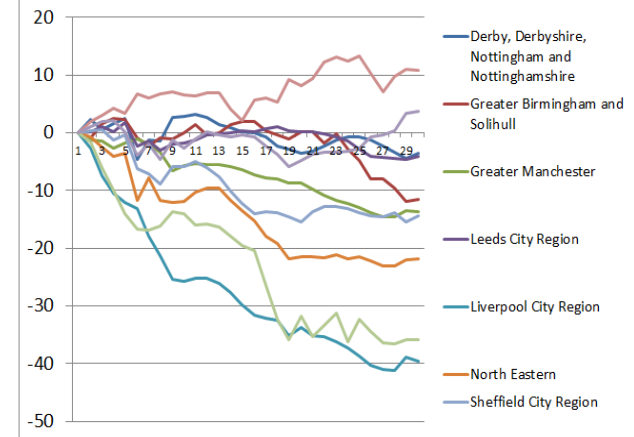
Coastal and Countryside



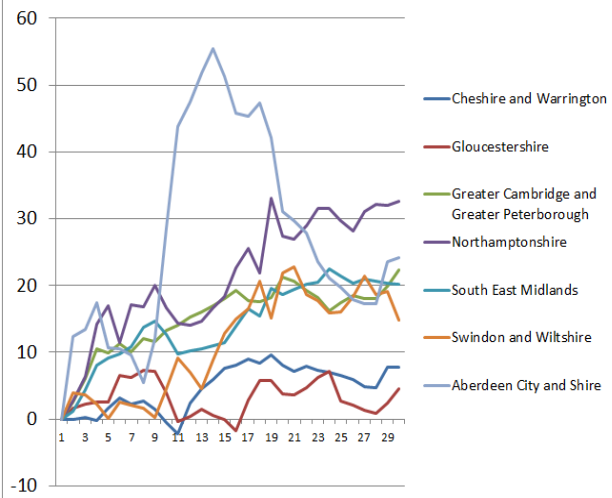
Industrial Heartland



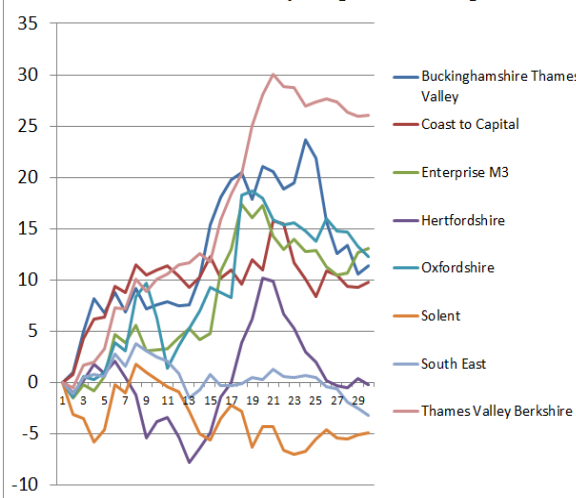
Regional Centres



Prospering Smaller Towns

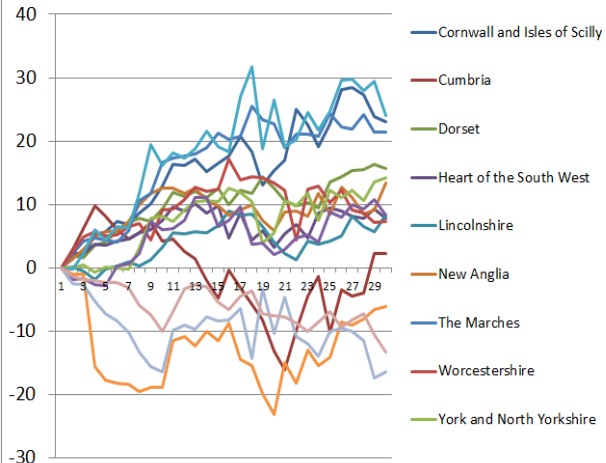


Prospering Southern England

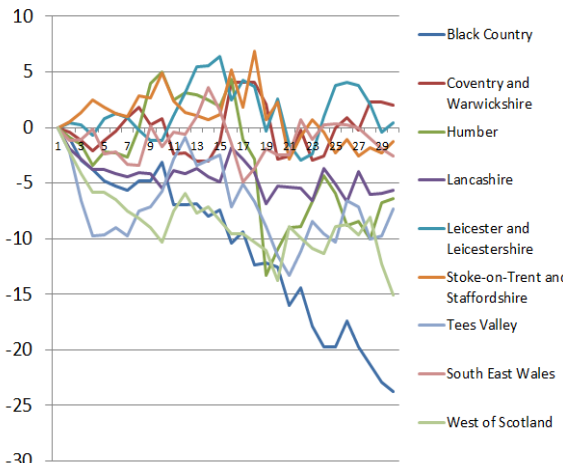


Within Typologies – Employment Analysis (relative to GB-sum LEPS)

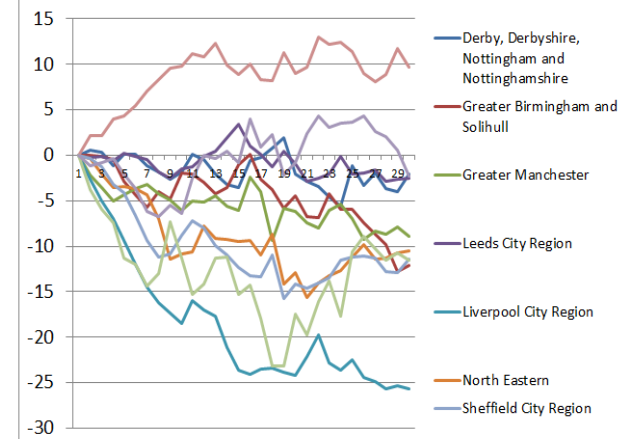
Coastal and Countryside



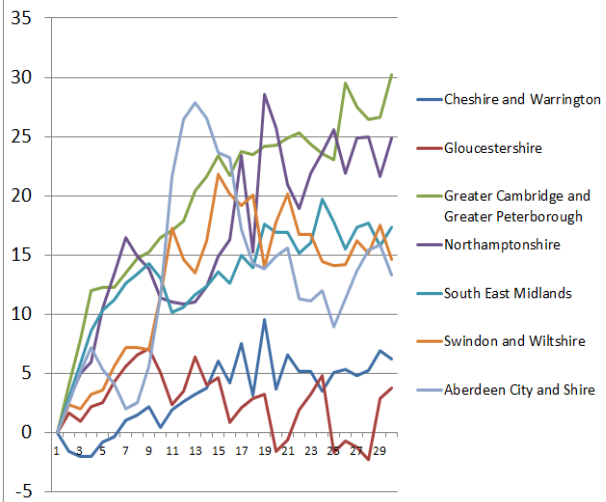
Industrial Heartland



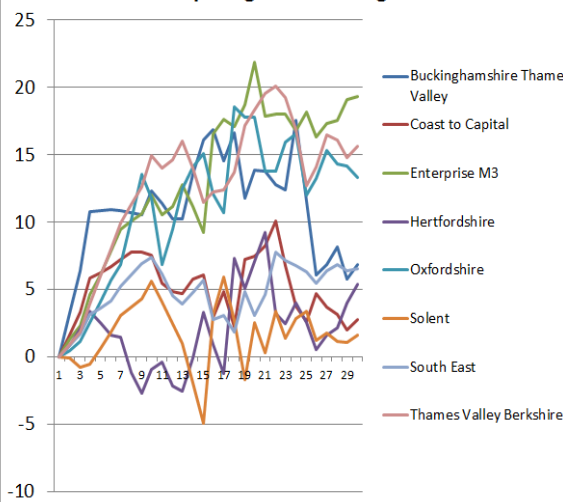
Regional Centres



Prospering Smaller Towns

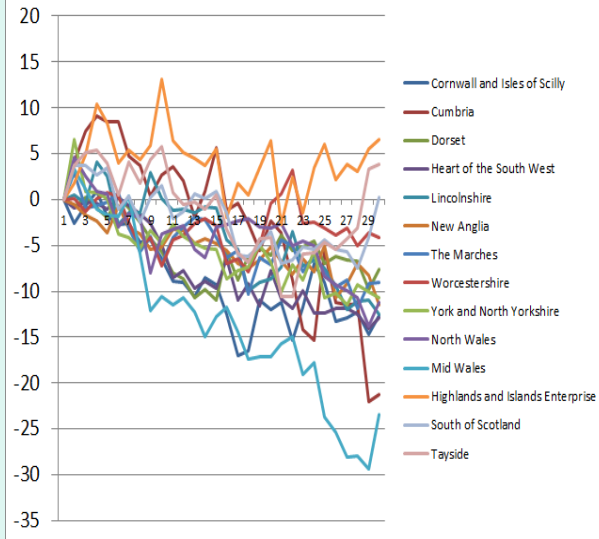


Prospering Southern England

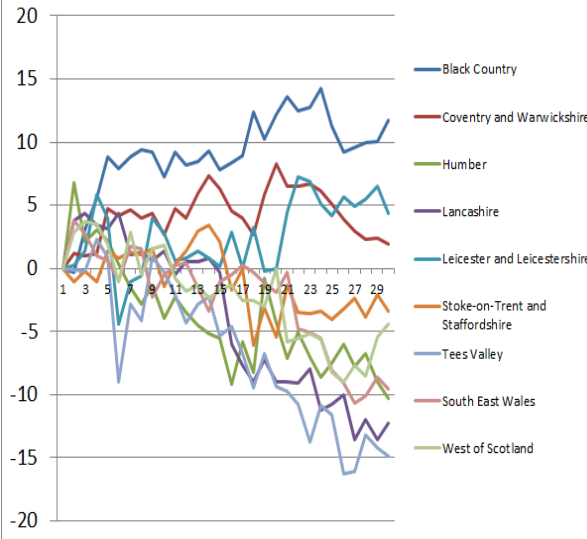


Within Typologies – Productivity Analysis (relative to GB-sum LEPs)

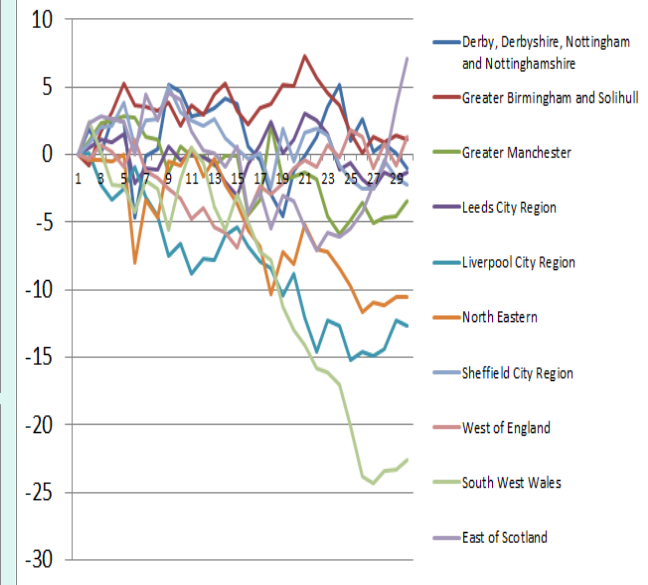
Coastal and Countryside



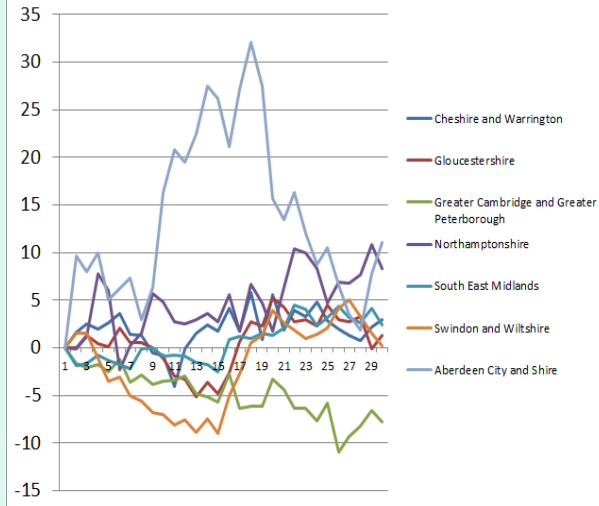
Industrial Heartland



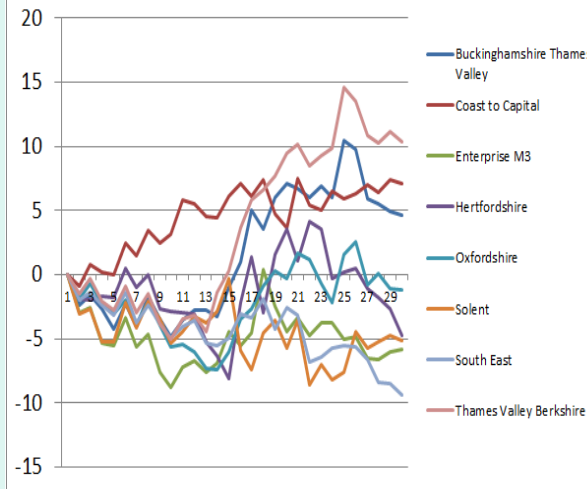
Regional Centres



Prospering Smaller Towns



Prospering Southern England



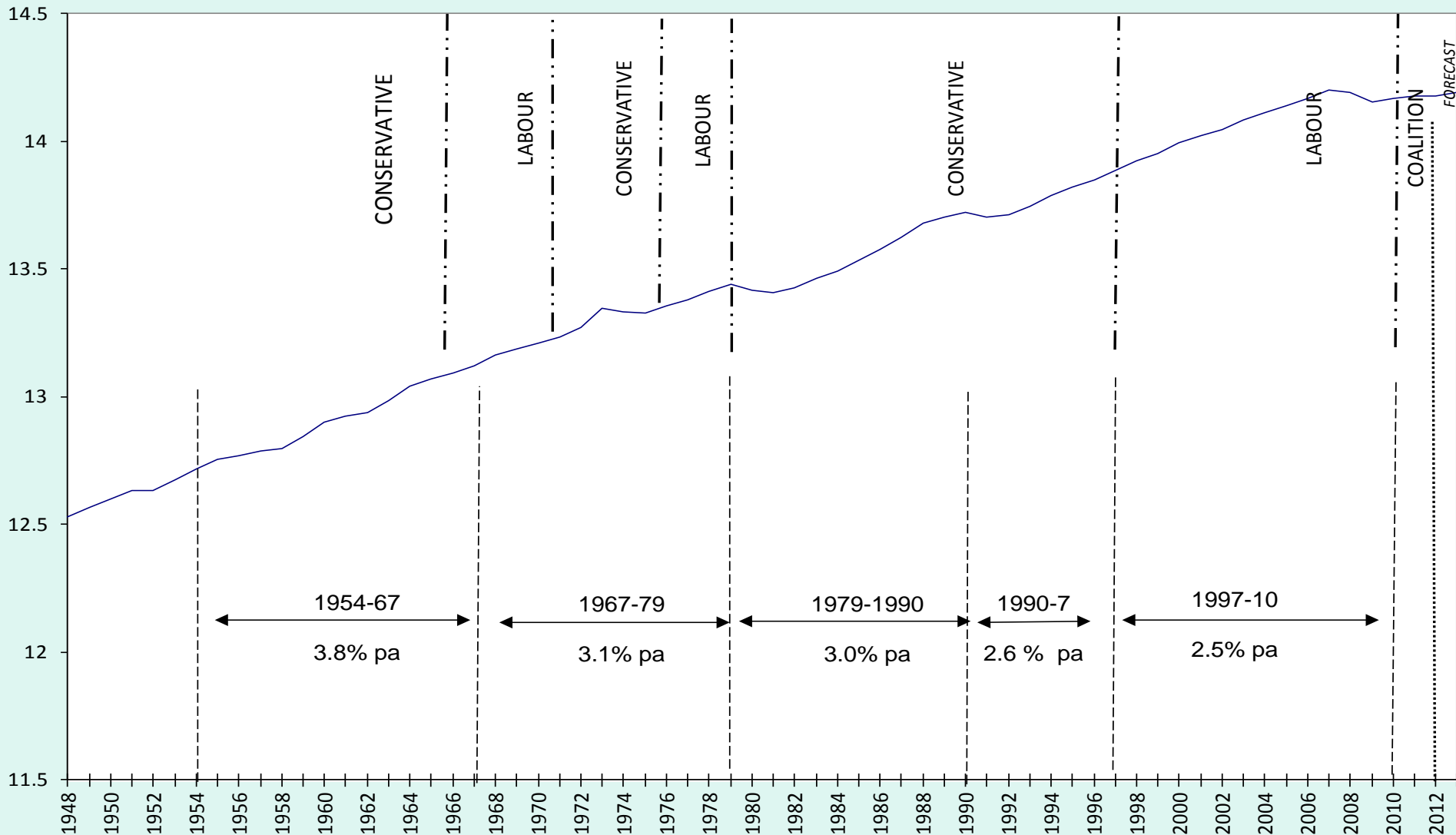
The Policy Challenge

- Government's approach to spatially rebalancing Britain is via new Localism Agenda
- Variety of initiatives – LEPs, Regional Growth Fund, 24 EZs, 6-8 TICs, new Business Investment Bank
- But these enough?
- And new focus on relaxing planning regulations could actually accentuate growth in the South relative to the North

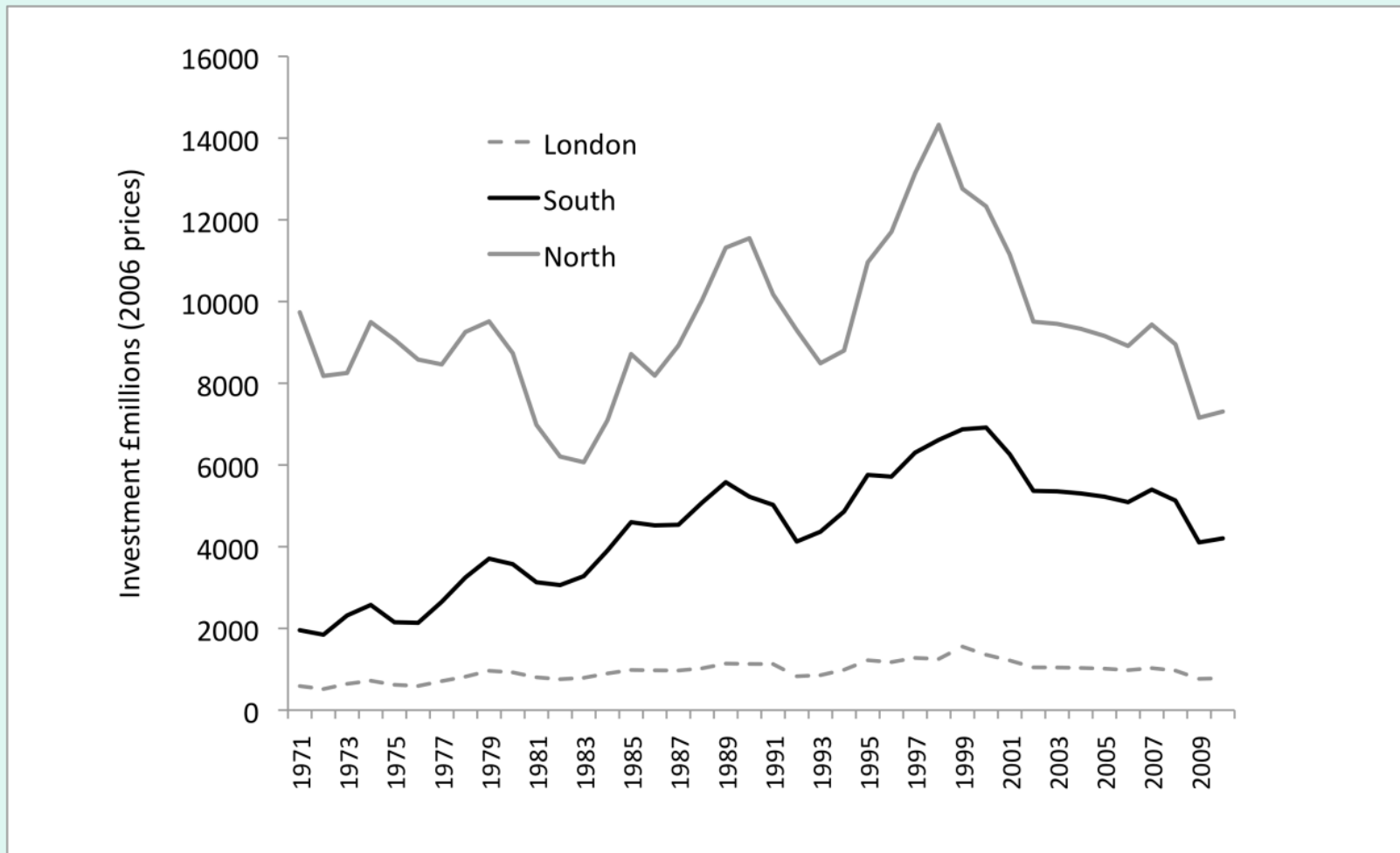
The Policy Challenge

- Like Barlow, Government sees spatial rebalancing going hand in hand with sectoral rebalancing – promoting manufacturing
- Barlow's concern was to get more manufacturing to go to the North
- Problem now is to get more manufacturing everywhere, but especially in the North
- But no real strategy for reviving manufacturing
- Manufacturing investment has languished since 1997, especially in Northern Britain

Performance of the UK Economy, GDP 1948-2012 (Constant 2009 prices)



Manufacturing Investment Trends by Region, 1971-2010



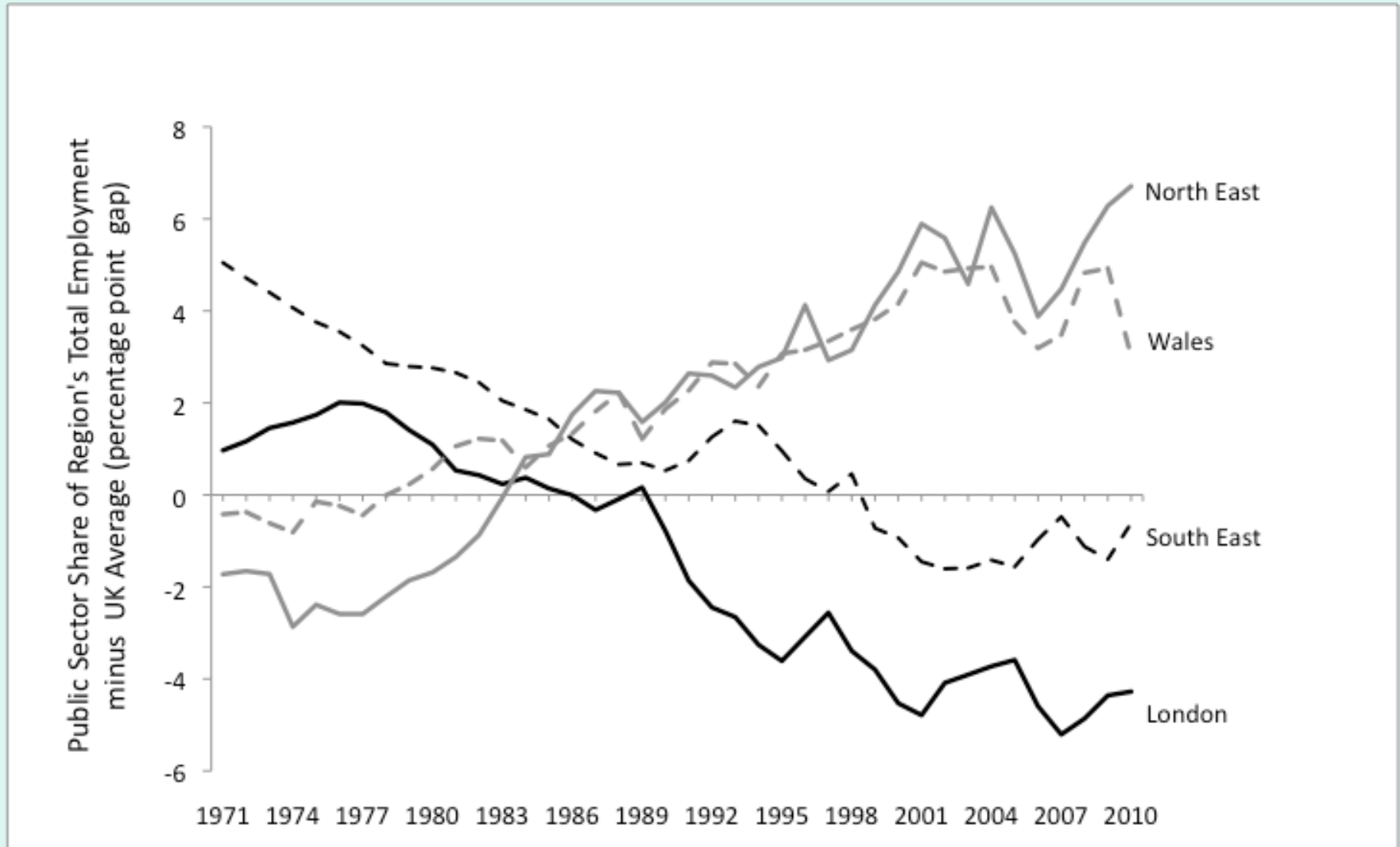
The Policy Challenge

- There is also the issue of austerity – public spending cuts of £155bill up to 2015/16
- Estimated that over 1 public sector jobs will have gone by then
- Meanwhile £375bill has gone into ‘quantitative easing’, and more than £1trillion in propping up banking system
- Impact likely to be highly uneven across regional Britain
- North of Britain has become more dependent on public sector for growth and jobs
- Can the Local Growth Agenda compensate?
- Austerity is likely to exacerbate spatial imbalance

Public Sector Contribution to Growth in GVA, 1989-2008

	1989-2008 percent
London	11.6
South East	16.6
East	20.2
South West	23.0
East Midlands	25.2
West Midlands	28.4
Yorks-Humberside	28.6
North West	30.7
North East	37.8
Wales	43.2
Scotland	24.4
GB	21.1

Public Sector Share of Regional Employment, Measured Relative to UK Average, 1971-2010



The Policy Challenge

- Where do we go from here?
- Case for a new industrial strategy?
- Case for a new ‘spatial grammar’ to economic policy? Less London- and South-centric
- Heseltine (*No Stone Unturned, 2012*) argues for major devolution of economic policy powers and combination of existing industry, employment and regional support programmes into single annual £50billion ‘pot’
- For which LEPs can bid

The Policy Challenge

- Need to go further than Heseltine
- A new form of bank-industry relations (cf Germany)?
- Is regional fiscal federalism needed? (cf Devolved administration - Scotland, N. Ireland and Wales)
- North of England increasingly disadvantaged in this respect
- Focus on selected major conurbations in the North (e.g. Birmingham, Manchester, Sheffield, Newcastle) to gain the agglomeration economies that benefit London
- A radical policy is needed if a spatial rebalancing of economy is to be achieved