

## **Rethinking Regionalism: Developing the 'Distributed' Economy**

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### **Introduction**

The period since the Global Financial Crisis 2007-08 has exposed significant and growing inequalities of wealth. In what Castells has referred to as the 'aftermath'<sup>1</sup> of this crisis, he identifies a changed economic order in which a crisis-ridden public sector and a moribund manufacturing sector will be left behind by the knowledge economy and developments in new technologies. This two speed economy will be spatially differentiated and will further exacerbate the level and regional pattern of poverty and inequality. Piketty<sup>2</sup> amasses a definitive body of evidence that maps these inequalities since the 18<sup>th</sup> century. Piketty shows that apart from the period between 1930 and 1975, the rate of return on financial capital has been greater than the rate of economic growth over the long term, and that the result of this is an increasing concentration and polarisation of wealth.

In a brief comparison of Australia and the UK we can identify common, major concerns about the current rates of poverty. In the UK the Joseph Rowntree Foundation has become the definitive authority in the measurement of poverty with its annual Monitoring Poverty and Social Exclusion report. In Australia this role has been performed by the Australian Council of Social Services. Using the same measure of family income of less than 60% of the national median, their most recent reports identify child poverty rates of 27% in the UK<sup>3</sup> and 22% in Australia<sup>4</sup>. These figures constitute a major challenge to the neoliberal belief in the 'trickle down' effect, which gained traction during the 1980's and justified economic policy on the basis that wealth would trickle down to the poor. Piketty argues that, not only does trickle down not occur, but the only way to ensure wealth is distributed more evenly is to have significantly higher progressive and business taxation, as was the case between 1930 and 1975.

### **Trickle-Down Geography**

In the era of redistributive social policy, approaches to regional policy were themselves characterised by state-led attempts to redistribute economic activity to where market forces were failing. Hence, regional policy in the UK up until the late 1990s largely involved

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<sup>1</sup> Castells, M., Caraça, J. and Cardoso, G. (2012). *Aftermath: The Cultures of the Economic Crisis*. Oxford University Press: Oxford.

<sup>2</sup> Piketty, T. (2014) *Capital in the 21<sup>st</sup> Century*. Translated by Goldhammer, A. The Belknap Press. Cambridge, Massachusetts and London.

<sup>3</sup> MacInnes, T., Aldridge, H., Bushe, S., Tinson, A., and Born, T. (2014). *Monitoring poverty and social exclusion*. Joseph Rowntree Foundation: York.

<sup>4</sup> ACOSS (2014). *Poverty in Australia 2014 Report*. Australian Council of Social Services.

attempts to incentivise industry to move to areas of high unemployment<sup>5</sup>. In activities under its direct control, the state physically relocated key functions to regional locations<sup>6</sup>. At the same time Regional Development Agencies focused on Foreign Direct Investment as a core strategy<sup>7</sup>. As neoliberalism came to dominate both economic and social policy however, there was a general transition from redistributive social and economic policy to a more competitive, market-based approach. A raft of policies that diminished the post 1945 settlement in the UK and, to varying extents promoted similar responses in other major European nations, asserted market driven capitalism as the orthodox wisdom, especially in economic policy.

In this context, neo-liberal doctrines were deployed to justify, among other projects, the deregulation of state control over major industries, assaults on organized labor, the reduction of corporate taxes, the shrinking and or privatization of public services, the dismantling of welfare programmes, the enhancement of international capital mobility, the intensification of inter locality competition and the criminalization of the urban poor.<sup>8</sup>

The 'inter-locality' competition identified by Brenner and Theodore has become the core of regional economic strategy in the UK and has been expressed most clearly in the identification of the city region as the locus of economic growth and development. The central belief is that the city is the driver of economic development and that the hinterland will benefit from the wealth created in the core city and from improved and coordinated governance across local government boundaries<sup>9</sup>. Even in more polycentric versions or network versions of the city region model, agglomeration and concentration remains the driver but at the level of smaller cities and regional towns<sup>10</sup>.

Consequently, the dominant approach to economic development remains competitive. The doyen of the narrative of competitive success, Richard Florida, argued that those cities with the highest proportions of 'creative classes' were likely to be the most competitive internationally, as there is something in the make-up of places that attracts creative people that attracts even more creative people, businesses and capital. Florida urged cities to

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<sup>5</sup> McCarthy, A., Pike, A. and Tomaney, J. (2012). 'The governance of economic development in England'. *Town and Country Planning*. March, pp. 126-130.

<sup>6</sup> Adams, J., Robinson, P. and Vigor, A. (2003). *A new regional policy for the UK*. Institute for Public Policy Research: London.

<sup>7</sup> Wren, C. and Jones, J. (2012). *Foreign Direct Investment and the regional Economy*. Ashgate: Farnham.

<sup>8</sup> Brenner, N. and Theodore, N. (2005). 'Neoliberalism and the urban condition, City: analysis of urban trends, culture, theory, policy, action'. *Antipode. A Radical Journal of Geography*. Vol 34:3, pp. 349-379.

<sup>9</sup> Huggins, R. (2015). 'City Regions are perfect for Wales says world leading competitiveness expert Prof Rob Huggins'. *Wales Online*. 13<sup>th</sup> Feb 2015. <http://www.walesonline.co.uk/business/business-news/city-regions-right-wales-says-8639831>

<sup>10</sup> Grove, A. (2012). 'Emerging Polycentric City-regions in Germany. Regionalisation of Economic Activities in Metropolitan Regions'. *Erdkunde*. Vol 66:4, pp. 295-311.

attract the creative classes by focusing their economic development resources on projects such as sports stadiums, iconic buildings, and shopping centres.<sup>11</sup>

Ironically, many of those who advocate trickle-down economics nevertheless call for significant public sector financial support to create the conditions for the competitive success of cities. Nowhere has this been more apparent than in London and the South East, which have seen the heaviest concentrations of public sector investment, including the £10bn Olympics, £4bn Terminal 5 at Heathrow, and the £5bn Channel Tunnel Rail Link, as well as the Crossrail project. Massey has termed the justifications put forward by those who advocate greater concentration of public sector investment in London and the South East as 'trickle-down geography'<sup>12</sup>. The concentration of public resources in those areas that are more likely to be internationally competitive, it is argued, will lead to greater national wealth that can then subsequently be geographically as well as socially spread across the country. To a lesser extent this argument has been used to justify major public expenditure in other cities across the UK. Competitive cities and agglomeration economics however, have not addressed the fundamental problem of inequalities, nor have they offered a solution to disadvantaged locations.

It is sobering to reflect that in London, the epitome of a globally competitive city, the poverty rate in Tower Hamlets is 49%. Manchester, often hailed as the most successful of the UK city regions has a child poverty rate of 39%<sup>13</sup>. This is not to say that the competitive city model is the cause of poverty, but that it does little if anything to address it. It is difficult to see how such locations can be judged as models of economic success when they have clearly failed to provide a significant proportion of their populations with a decent standard of living. It is even more difficult to see that the entire basis of economic strategy in the UK is founded on encouraging the city region model for all the UK core cities, and has been enshrined in the City Deal Strategy and its approach to worklessness<sup>14</sup>. We suggest that the critical focus on city regions and their economic performance has neglected other aspects of any assessment of efficacy, including democratic process and governance<sup>15,16</sup> and, in our focus in this paper, issues of social justice and equity.

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<sup>11</sup> Florida, R. (2005). *Cities and the Creative Class*. New York: Routledge.

<sup>12</sup> Massey, D. (2010). *World City*. Polity: Cambridge.

<sup>13</sup> MacInnes, T., Aldridge, H., Bushe, S., Tinson, A., and Born, T. (2014). *Monitoring poverty and social exclusion*. Joseph Rowntree Foundation: York.

<sup>14</sup> Green, A. and Orton, M. (2012). 'Policy innovation in a Fragmented and Complex Multilevel Governance Context. Worklessness and the City Strategy in Great Britain.' *Regional Studies*. Vol 46:2, pp. 153-164.

<sup>15</sup> Purcell, M. (2007). 'City Regions, Neoliberal Globalization and Democracy. A Research Agenda'. *International Journal of Urban and Regional Research*. Vol 31:1, pp. 197-206.

<sup>16</sup> Deas, I. (2014). 'The search for territorial fixes in subnational governance: City-regions and the disputed emergence of post-political consensus in Manchester, England'. *Urban Studies*, Vol 151:11, pp. 2285-2314.

## Rethinking *Local* Economic Development

The neoliberal orthodoxy is not without its challengers. Work undertaken the Centre for Research on Socio-Cultural Change (CRESC), has developed the concept of the 'foundational economy'<sup>17</sup> to describe the economic activity that meets the daily 'mundane' needs of the population. The foundational economy includes food, utilities, telecommunications, transport, health, housing and education. CRESC have suggested that rather than attempt to *redistribute* via a return to significantly higher levels of taxation, which is unlikely to receive support, we should *reorganise* our economy. They argue for the 'grounded city', which places an emphasis on the distribution of mundane good and services essential for civilised life, rather than the pursuit of growth only in certain high tech industries<sup>18</sup>.

In the remainder of this paper we wish to make the arguments for a supplementary approach to regional and local economic development. We will term this approach 'the distributed economy'. Borrowed from environmental analyses in the early-mid 2000s<sup>19</sup>, this term has not enjoyed currency to date and we propose to advance its use in the context of a more spatially distributed model of the economy. Neoliberalism has generally been highly supportive of urbanisation, agglomeration and concentration of productive capacity. A focus on GDP and GVA as a measurement of economic wellbeing has favoured sectors of the economy that function best within this model to the detriment of the foundational economy. The foundational economy is not concentrated in high tech parks, Central Business Districts or business zones, but rather is distributed wherever the population that use the goods and services provided by the foundational economy actually live. The focus of the foundational economy is food supply, energy distribution, tele-communications, transport, health, housing, education, personal and social services. By definition these have to be delivered to the whole population and not in spatial concentrations. This is by its very nature a spatially distributed pattern of delivery in which some 30-40% of overall economic activity takes place outside the conventionally recognised centres of economic activity.

A fruitful way of conceiving this major component of the economy is that rather than the conventional distinction between national, regional and local economies the overall economy is seen as a 'grid'. Conventionally, we see the economy as constructed from a globally orientated national economy, that is outwardly focused on regional, national and international exchange and a more localised economy with local patterns of circulation. This has been enshrined in the New Economic Foundation's 'leaky bucket' model<sup>20</sup>, which attempts to seal local circulation within a geographically defined local economy to maximise

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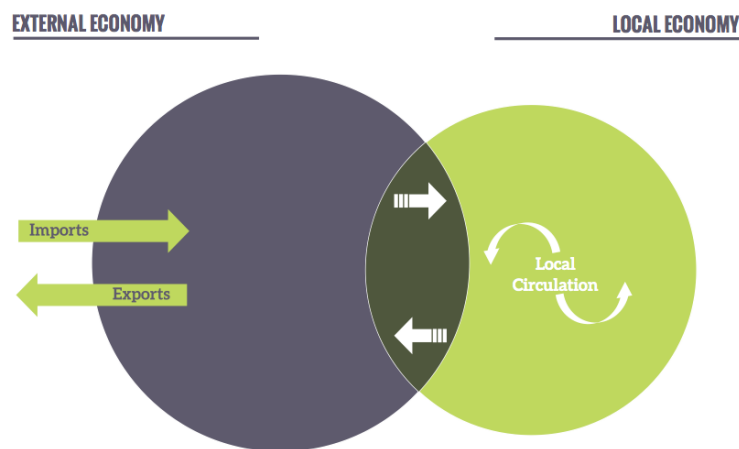
<sup>17</sup> Bentham, J. et. al. (2013). *Manifesto for the Foundational Economy*. CRESC Working Paper no 131.

<sup>18</sup> Bowman, A. et. al. (2014). *The End of the Experiment: From Competition to the Foundational Economy*. Manchester University Press: Manchester.

<sup>19</sup> International Institute for Industrial Environment. (2009). *The Future is Distributed. A Vision of Sustainable Economies*. IIIIE: Lund.

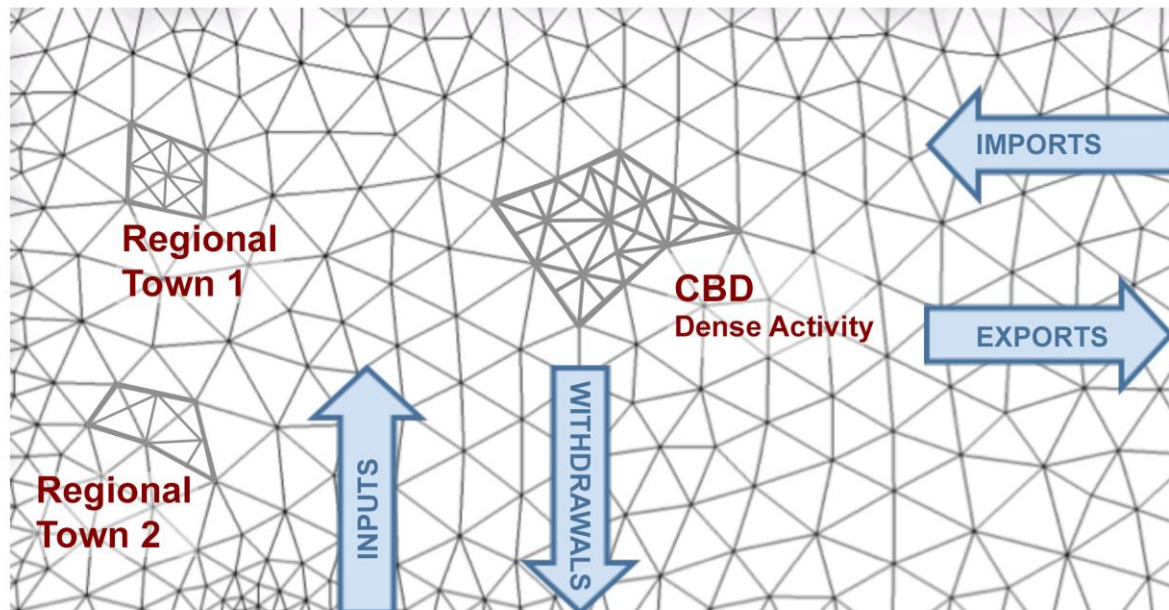
<sup>20</sup> Ward, B. and Lewis, J. (2002). *Plugging the leaks. Making the most of every pound*. New Economic Foundation: London.

the multiplier effect of local expenditure. This might be represented diagrammatically in the following way:



In this model the local economy is seen as relatively autonomous, but also ultimately dependent on and exploited by the mainstream or external economy. This ironically favours a trickle down perspective, where growth in the national economy will eventually trigger impacts at the local level as employment is increased, incomes raised and through improved infrastructure, mass transit of workers to the growth nodes of the mainstream economy impact throughout the region. However, as we have argued, the experience in the UK, Australia and elsewhere of widening wealth divides, persistent regional unemployment, significant growth disparities in post-industrial regions and rising poverty levels, including for those in employment, clearly show that the model and the policies based on it are inadequate.

We believe it is important to explore the potential of the distributed model of an economy that behaves in ways akin to a utility distribution grid as an alternative to the traditional approach. In the distributed model economic activity takes place throughout the region. There will be mainstream orientated concentrations in key localities, such as the CBD but there will also be lower scale levels of activity distributed spatially throughout the region. These activities are intricately linked and meshed together in a grid like structure. This is represented in the following diagram:



Where agglomeration effects are achievable in business zones, manufacturing parks, CBDs and other areas of economic concentration, the inputs into the economy will be dominant. There may be associated large-scale withdrawals from the economy to support appropriate infrastructural investment, conventionally provided to ensure that business conditions are favourable. This may involve investment in IT infrastructure such as broadband networks, rapid transport to ensure adequate labour supply and education and training provision to provide a skilled labour force. These will generally be outweighed by inputs into the economy derived from the density of economic activity. In other geographical localities, inputs will be derived from the SME sector, catering, energy and utility supply, telecommunications, retail and the private housing sector. However, there will also be considerable withdrawals from the economy in the form of social housing provision, educational provision, healthcare, personal social services and welfare benefits. In conventional regional policy, sponsorship and improvement of the dense areas of activity has been the norm and in the last thirty years significant reduction in public sector expenditure has minimised withdrawals by the wider distributed economy. Rising poverty levels have been a consequence of the favouring of the core elements of the grid and reducing state expenditure on the distributed elements of the economy.

This paper calls for a refocusing of regional economic policy to place greater importance on the distributed economy by sponsoring and developing the foundational economy, and ensuring that public services are adequate to meet the needs of the population. This is not to suggest that we ignore or abandon investment in the conventional city region processes of agglomeration, but that we also attend to the conditions that prevail in the distributed economy. By harnessing state support of the foundational economy, especially those activities conventionally seen as 'withdrawals' from the economy, there is considerable potential for increasing employment and growth in the distributed economy.

The authors identified a similar approach in their *Deep Place* work in Tredegar, South Wales, and identified the core sectors of food supply, energy generation and conservation, social care and e-commerce/e-working as key areas with potential for economic growth within the distributed economy<sup>21</sup>. Firmly embedded in the distributed and foundational economy, these activities have the advantage of being operational throughout the geographical region and also accessible to those with low skills and those who require low threshold entry points to the labour market. This is clearly at odds with neoliberal theory and the tendency to radically cut public expenditure. We argue, however, that such strategies are an essential element of any attempt to redress the rising levels of poverty and inequality we have outlined in this paper. Conventional regional economic policy and specifically the pursuit of an unmodified city region strategy is a failure if judged by its impact on reducing the levels of poverty. We conclude that this is a critical measure in which failure invalidates the approach, even if it can claim success in terms of improved national GDP or GVA.

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<sup>21</sup> Adamson, D. and Lang, M. (2014). *Toward a New Settlement. A deep place approach to equitable and sustainable places*. Centre for Regeneration Excellence Wales: Merthyr Tydfil.  
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