

the governance of economic development in england

Anja McCarthy, Andy Pike and John Tomaney look at the long history of policy initiatives to tackle regional economic inequalities in England, and at early evidence on the likely impact of the latest changes in approach

The UK is marked by persistent spatial inequalities that are exceptionally wide by international standards. These inequalities have their origins in the crisis of the northern industrial economies in the inter-war period and in the growth of a financial services dominated economy centred on London and the South East of England. As a consequence, England has a long history of local and regional development policy.

At the same time, England has been characterised by an exceptionally centralised governance system, especially since the Second World War. Central government has been the main actor in local and regional economic development policy. The powers of local government have become increasingly subject to central regulation, and the bulk of its resources come from financial transfers from the centre. England, of course, lacks the regional tier of government typical of similar-sized countries.

In the post-war period, the governance of economic development in England has been subject to continuing revolution. The UK Government operated an extensive regional policy in the 1960s and 1970s, mainly in the form of investment subsidies, aimed initially at contributing to the modernisation of the economy, mitigating growth pressures in London and the South, and redistributing resources from faster to slower growing regions. Later, regional policy, albeit substantially reduced, aimed to respond to intensifying de-industrialisation in the North and the Midlands.

Under the Thatcher and Major Governments in the 1980s and 1990s, market solutions to social and economic problems were emphasised, but regional policy did not disappear; instead, it was focused on stimulating new sources of growth rather than on redistributing resources or compensating regions for job losses, and was exemplified by policies such as Enterprise Zones.

New Labour's 'new regional policy'

New Labour's regional policy approach recognised the persistence of regional inequalities but argued that the 'old regional policy' of subsidy and redistribution had failed to ameliorate such problems but that market forces alone were insufficient to do so. A 'new regional policy' founded on macro-economic stability, correcting market failures and increasing productivity was offered as an alternative, and a new Public Service Agreement target committed the Government to reducing the gaps in economic growth rates between regions. The instruments of this policy in England were nine Regional Development Agencies (RDAs), accountable to their sponsor central government department and subject to performance targets determined in Whitehall, but with private sector led boards appointed by the Secretary of State. RDAs were given the task of improving the economic performance of all regions through the preparation of Regional Economic Strategies and a widening range of responsibilities.

While this approach marked a change in strategy, it continued the shift from a redistributive to a more growth-oriented form of regional policy under the guiding authority of central government.

New Labour's regionalisation strategy was curtailed by the defeat of the referendum on establishing an elected Regional Assembly in North East England in 2004, leaving an array of 'spatial imaginaries' competing for political attention – including the pan-regional 'Northern Way', city-regions such as Greater Manchester, and multiple localist claims. A Review of Sub-National Economic Development and Regeneration in 2007 emphasised the importance of sub-regional and city-regional partnerships and the integration of economic and spatial planning, and paved the way for the creation of Regional Ministers and a House of Commons Committee and the disbandment of existing voluntary Regional Assemblies.

Prior to the 2010 General Election, the record of this policy was the subject of contention. A government-commissioned analysis from PricewaterhouseCoopers in 2009 found 'credible evidence' that RDAs generated benefits that exceeded their costs.¹ But for the then Conservative opposition, the RDAs represented 'regional centralism' and bureaucracy. The Conservatives proposed 'decentralisation' and 'localism' as alternatives. The Liberal Democrats wanted RDAs – retained only in regions where they enjoyed wide support – to narrow their focus onto economic development.

Lurking in the background were ideas emanating from right-wing think-tanks such as Policy Exchange, which questioned the necessity and desirability of regional policy² and posited agglomeration economies (or 'economic mass') as the source of productivity gains, concluding that London and the South East of England should be allowed to grow at a faster rate by removing planning restrictions. In this perspective, regional policy is seen as wasteful and counter-productive, unsupported by 'compelling evidence' on the effectiveness or otherwise of RDAs.³

Rebalancing, decentralisation and localism – a Maoist approach

'Getting rid of the RDAs and bringing in LEPs has perhaps been a little Maoist and chaotic, but overall we're giving back to councils and local authorities the powers and incentives they need to see a resurgence in civic pride.'

Vince Cable, Business Secretary, quoted in the *Financial Times*, 12 November 2010

The context for the general election was an unprecedented global economic crisis. The inconclusive result produced the Coalition Government, which remains focused on deficit reduction, albeit alongside a rhetoric of 'rebalancing' the economy – meaning in various usages a shift

away from a concentration on financial services in London and the South East; a shift of output and employment from the public to the private sector; and a shift from consumption to production and exports.⁴

In this context the RDAs were presented as emblematic of Labour's profligacy ('bloated regional quangos') and were swiftly slated for abolition, along with Government Offices for the Regions, even in regions where they were regarded as successful and commanded wide support. The distribution of austerity involves not simply reductions in public expenditure, but profoundly political choices about the future character of the state, with uneven implications for cities and regions.

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The new policy regime has banished the term 'region' from the lexicon of economic development. New Labour's regional policy is criticised for its role in a growth model that was sectorally and regionally 'unbalanced', statist, insufficiently cognisant of functional economies, lacking in proper accountability, and characterised by complexity and duplication. In response, the Coalition approach is said to be marked by a commitment to 'rebalancing', 'decentralisation' and 'localism' and advocacy of the 'Big Society'.

Rebalancing is enacted through a new Regional Growth Fund, competitively allocated with the aim of stimulating enterprise, and – in an echo of the past – through the creation of 21 new Enterprise Zones. In rhetorical terms, decentralisation concerns the shift of power to communities and individuals beyond the state. In practical terms, decentralisation and localism are aimed at promoting private sector led groups to mobilise local resources and tailor policies to local circumstance. Territorial competition, once considered wasteful, is now encouraged as a stimulus to growth. The Government has encouraged the formation of Local Enterprise Partnerships (LEPs) – intended better to reflect functional economic geographies – with the task of fostering the conditions for local growth. The prospect of directly elected Mayors is offered in the 12 largest cities outside London.

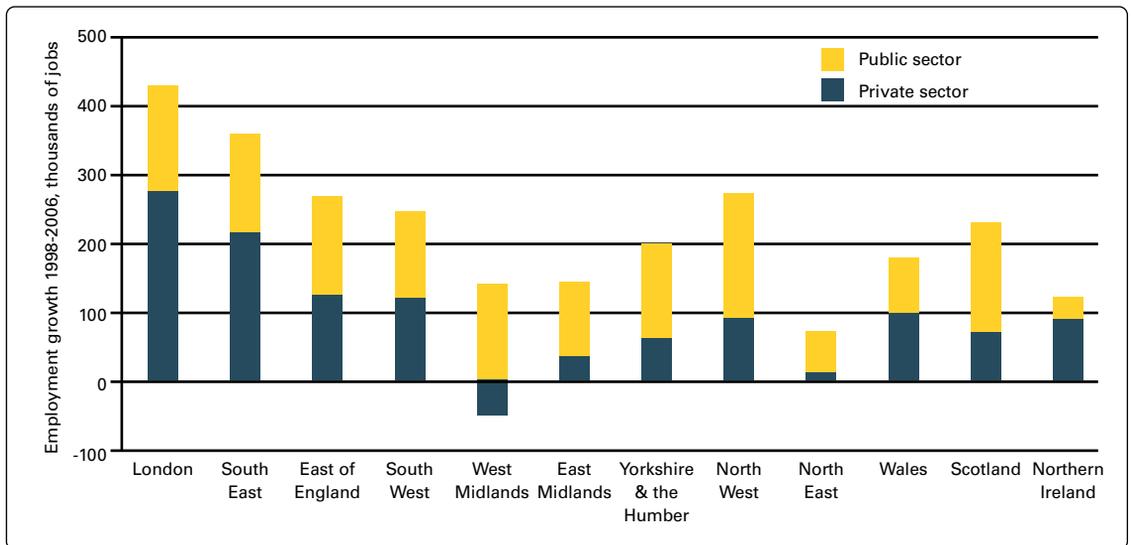
At the same time, decentralisation and localism have been offset by marked *centralisation*. Several

Table 1

Local Enterprise Partnerships and Functional Economic Areas (FEAs)

| Phase of LEP recognition | LEPs whose areas come close to being '1 for 1' with Travel-to-Work Areas | LEPs whose areas are recognisably city-regions | LEPs whose areas are of questionable validity as Functional Economic Areas |
|--------------------------------|--|--|--|
| | % of total in brackets | | |
| Initial phase: approved | 1 (4.2%) | 10 (41.7%) | 13 (54.2%) |
| Initial phase: rejected | 2 (6.5%) | 3 (9.7%) | 26 (83.9%) |
| Later phases: approved | 1 (7.7%) | 4 (30.8%) | 8 (61.5%) |

Source: Authors' research (carried out at a time when 37 LEPs had been approved)



Above

Fig. 1 Public versus private sector jobs growth 1998-2006, by region

Source: Cambridge Econometrics and ONS, in *Rebalancing the Economy Sectorally and Spatially: An Evidence Review*⁴

activities developed by the RDAs, such as innovation, inward investment and trade promotion, adult skills provision, rapid response to economic crises and the management of EU funds, have been centralised in Whitehall. Ministers' have coined the term 'guided localism' to explain this apparent contradiction, but the House of Commons Communities and Local Government Select Committee has argued: 'The concept of 'guided localism' is an unhappy compromise which is neither helpful to local authorities nor as radical as the Government seems content to believe.'⁵

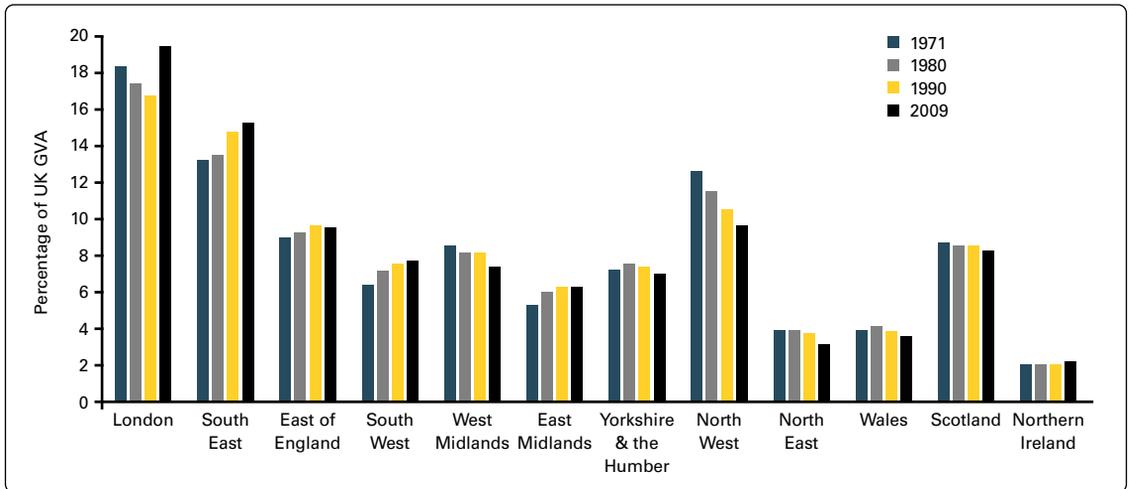
Do these actions amount to a strategy for local growth or a hastily assembled cover for the absence of one? At the very least, it is possible to identify a set of contradictions and unanswered questions.

The outstanding questions concern the rationale for the (local) state's role in the management of regional development; whether the local scale is the

only or most appropriate level for understanding agglomeration and economic mass and shaping economic policy; and whether causal relationships exist between 'rebalanced' local economies and growth. Moreover, probably reflecting the influence of right-wing think-tanks and the academic ideas they draw upon, current official documents are sanguine about the need to manage spatial inequalities at all.

Early commentary has been sceptical about the coherence of Government policy and its capacity to contribute to rebalancing. It is not clear how localism, decentralisation, the 'Big Society' and rebalancing intersect. Local government's actions, especially in the land use planning field, remain subject to central veto. The Government's plans are not subject to any specific, measurable targets.

Uncertainty surrounds the winding-up of the RDAs and the fate of their significant land holdings.



Above

Fig. 2 Regional shares of UK GVA

Source: Cambridge Econometrics and ONS, in *Rebalancing the Economy Sectorally and Spatially: An Evidence Review*⁴

The cost of closing the RDAs has been estimated at £1.5 billion – more than the value of the Government’s Regional Growth Fund. Moreover, the Chairman of the Regional Growth Fund, Lord Heseltine, has lamented that ‘the disbanding of regional development agencies also broke up the regional teams that gave Whitehall an overview in a locality. Instead, each government department has recreated its individual empire in the regions.’⁶ The House of Commons Communities and Local Government Select Committee concurred: ‘Continual reorganisation of the public bodies charged with helping to spark regeneration across the regions is likely to limit the ability of the retained and new organisations to keep that stored knowledge and experience over time.’⁷

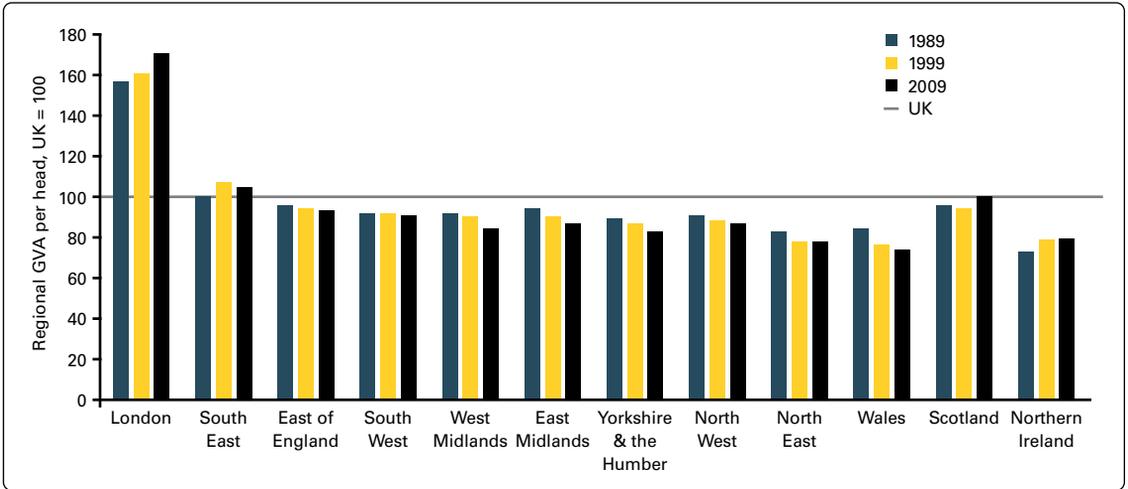
LEPs lack any statutory authority and sceptics question whether the scale and capacity of the new arrangements match the size of the task given the depth of the economic crisis: PricewaterhouseCoopers’ analysis highlights that the proposed scale of the Regional Growth Fund (£1.4 billion over three years) is 25% of the annual outturn of RDAs for 2009/10. It also notes that LEPs must fund their own running costs, secure private funding and bid for resources from the Regional Growth Fund with scarcely any dedicated resources. The late Sir Simon Milton, Conservative Deputy Mayor of London, concluded: ‘The government has still not been entirely clear what problem LEPs are the solution to.’⁸

The Government’s policies have resulted in the replacement of nine RDAs (and Government Offices for the Regions) with 39 LEPs to date. The map of LEPs reveals a highly differentiated, fragmented and localised geography. Despite the Coalition Government’s claim that governance areas should match functional economic areas, a high proportion

of existing LEPs provide questionable matches to any reasonable understanding of functional local economies in England (see Table 1). While only one local authority area is at present not covered by a LEP, some local authorities are in multiple LEPs – a new twist on the problem of duplication, which the Coalition had previously criticised.

The context for judging the likely impact of this new regime is the uneven geography of a severe crisis, state retrenchment and austerity. During the 2000s the nature of job growth was highly uneven, being driven by the expansion of the private sector in the South and the public sector in the North (see Fig. 1), reflecting the growth of financial services in London and the South and making the northern regions disproportionately at risk from the consequences of public expenditure cuts. London, the South East and the East of England increased their share of UK GVA after 1971, while the share of the northern regions declined (see Fig. 2), and only London and the South East had a GVA per head above the national average over the same period (see Fig. 3).

Powerful long-run economic trends are working against the goal of geographical and sectoral rebalancing, and, measured against them, the Regional Growth Fund, LEPs and ‘localism’ look inadequate.⁹ Moreover, as economic growth proves elusive in the aftermath of drastic austerity measures, voices within the Coalition reputedly are calling for a downgrading of regional policy: ‘Close allies, Conservative MPs and sympathetic think-tanks advise [the Prime Minister] that the quest for economic growth must trump all other considerations... There are calls to postpone dreams of ‘rebalancing’ the economy away from the



Above

Fig. 3 Regional GVA per head

Source: Cambridge Econometrics and ONS, in *Rebalancing the Economy Sectorally and Spatially: An Evidence Review*⁴

finance-oriented City of London and the south-east of England: this is a moment for helping the strongest first.¹⁰

The road not taken

At the general election of 2010 the future of regional policy and its governance was an open question. While the Conservatives had signalled their opposition to RDAs, some voices in the Party, especially in the North, cautioned against their abolition. The Liberal Democrats were committed to developing the RDA model where it was wanted. In the event, the qualitative re-organisation of the state in England has created not smarter, smaller or more flexible RDAs but something rather different: locally fragmented, voluntary partnerships led by the private sector with virtually no funding from central government, alongside several competitive national schemes with substantially reduced funding.

Yet despite the rhetoric of 'decentralisation' and 'localism', the recurrent role of central government and its strictures and priorities remain critical in shaping local development and deciding access to national funding streams. In the face of an intensifying global economic crisis, it requires a large leap of imagination to envisage these arrangements contributing to the spatial rebalancing of the UK economy.

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Notes

- 1 *Impact of RDA Spending: National Report*. PricewaterhouseCoopers, for the Department for Business, Enterprise and Regulatory Reform, 2009. www.berr.gov.uk/files/file50735.pdf
- 2 *Cities Unlimited*. Policy Exchange, 2008. www.policyexchange.org.uk/publications/category/item/cities-unlimited; and H. Overman: *Urban Renewal and Regional Growth: Muddled Objectives and Mixed Progress*. Election Analysis No 14. Centre for Economic Performance, LSE, 2010. <http://cep.lse.ac.uk/pubs/download/ea014.pdf>
- 3 These ideas, while gaining in prominence, are not new. Previously secret Cabinet papers from 1981, made public in 2011, show that senior members of the then Thatcher Government argued that northern cities should be subject to 'managed decline' rather than economic regeneration (see *Financial Times*, 30 Dec. 2011)
- 4 For a fuller discussion of the contradictory nature of these objectives, see S. Pringle, G. White, R. Pates, V. Seth, R. Beavan, J. Tomaney, P. Marques and A. Green: *Rebalancing the Economy Sectorally and Spatially: An Evidence Review*. Report for the UK Commission for Employment and Skills. 2011. www.ukces.org.uk/publications/er33-rebalancing-the-economy
- 5 *Localism*. HC 547. Third Report of Session 2010-12. House of Commons Communities and Local Government Committee, 2011, p.28. www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/547/547.pdf
- 6 M. Heseltine: 'We'll only mend society from the bottom up'. *The Times*, 23 Aug. 2011
- 7 *Regeneration*. HC 1014. Sixth Report of Session 2010-12. House of Commons Communities and Local Government Committee, 2011. www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/1014/1014.pdf
- 8 Quoted in *Financial Times*, 14 Nov. 2010
- 9 For further discussion, see *Rebalancing the Economy Sectorally and Spatially: An Evidence Review* (note 4)
- 10 'David Cameron: toxic Tory'. 'Bagehot'. *The Economist*, 26 Nov. 2011. www.economist.com/node/21540253