

# Regional Imbalance in the British Economy: From Barlow to the Banking Crisis and Beyond

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# Outline

- The new discourse / rediscovery of 'rebalancing'
- Spatially unbalanced growth and the North-South divide
- The role of structure vs competitiveness
- Theorising the facts
- The challenge for policy

# The New Discourse of 'Rebalancing'

- Over 70 years ago, Barlow Commission argued that British economy had become too regionally unbalanced
- That this imbalance was largely a structural problem
- 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'

- Barlow Report argued for a more spatially balanced pattern of activity and employment
- Became the basis for post-War regional policy
- Seventy years on, as result of worst financial and economic crisis since the early-1930s, Coalition government has argued that the British economy has become too spatially unbalanced
- And that a 'rebalancing' is required
- Problem again seen as structural

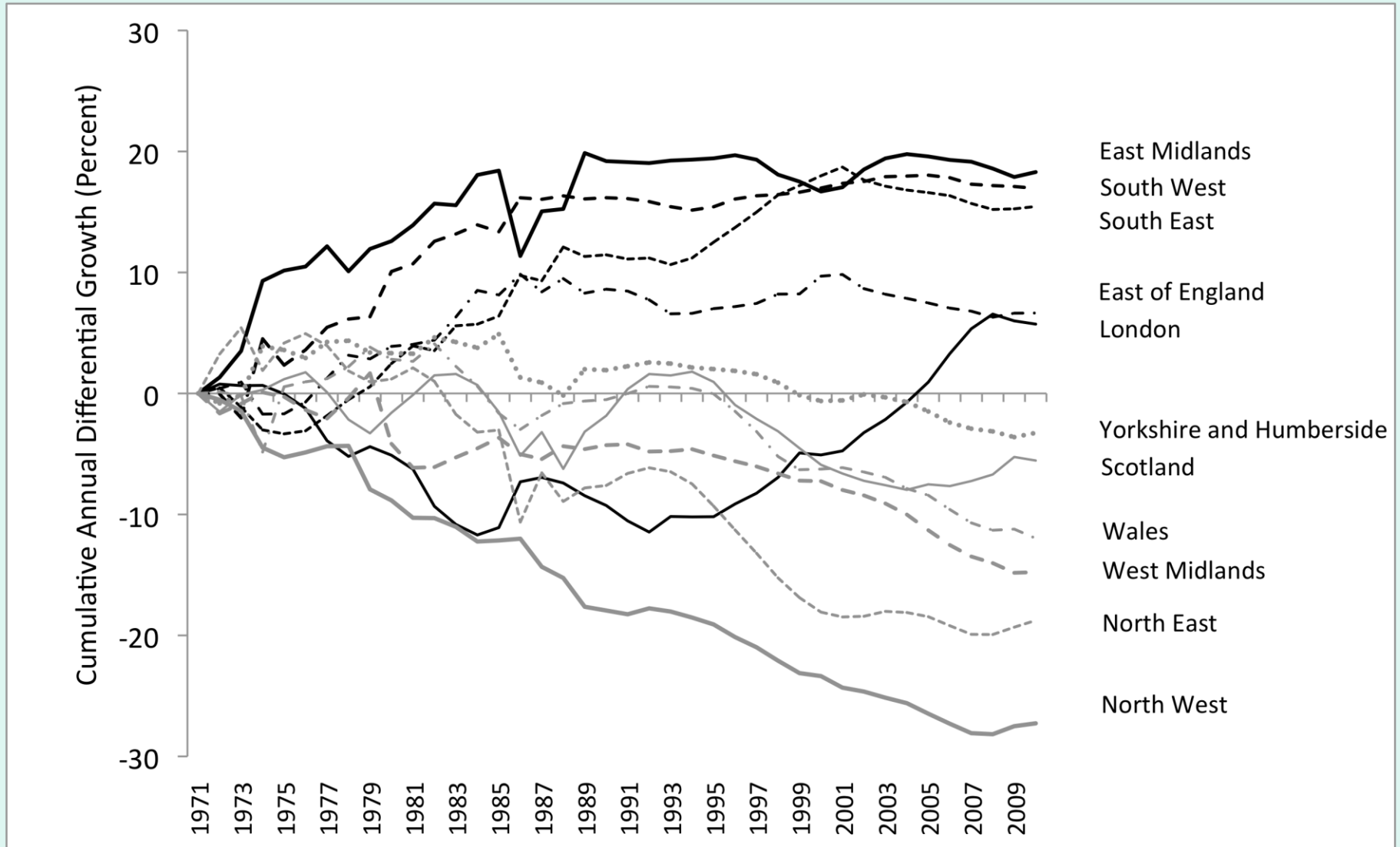
# The New Discourse of ‘Rebalancing’

- “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*)
- “***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*)

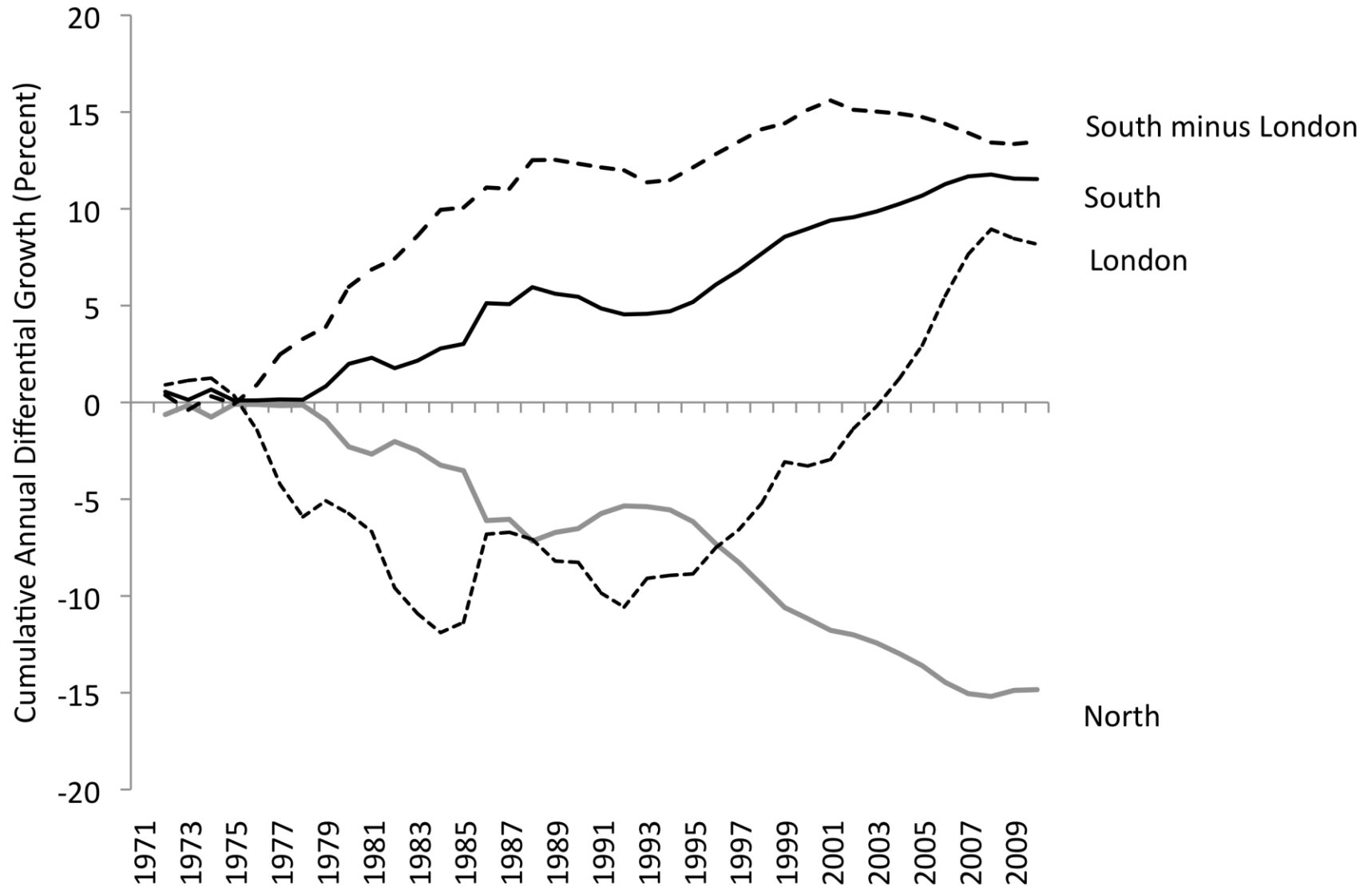
# The New Discourse of 'Rebalancing'

- In this paper we look back over past 40 years to analyse how regional imbalance and sectoral imbalance in British economy have evolved and interacted
- We situate this analysis within the recurring debate over the existence of a 'North-South Divide' in Britain's economic landscape
- We show how this Divide has intensified as a result of the national growth model of the past four decades
- And argue that Coalition Government's policies aimed at 'rebalancing' are not likely to succeed

# Cumulative Regional Output Growth Gaps (GVA, 2006 prices), 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 been firmly entrenched
- High degree of 'path dependence' in uneven regional growth and development
- Striking 'turnaround' in London's growth path since early-1990s
- How far has regional economic imbalance been driven by sectorally unbalanced growth?
- Political attention has focused on three main sectors – finance, public sector and manufacturing
- We explore this using dynamic multi-factor partitioning (MFP)

# Placing MFP within the Shift-Share Family

- Classic Shift-Share
  - national, industry and regional components

$$X_{i,r}^{t+n} - X_{i,r}^t = \Delta X_{i,r}^{t+n} = NS_{i,r}^{t+n} + IM_{i,r}^{t+n} + RS_{i,r}^{t+n}$$

## Criticisms

- Static, fixed industrial structure
- Aspatial
- Industry and region effects not properly separated

## Developments

- Dynamic shift-share (eg Selting and Loveridge, 1990)
- Spatial shift-share (eg Nazara and Hewings, 2004)
- Multi-factor partitioning (eg Ray, 1990)

# Identifying Structural and ‘Competitiveness’ Effects in Regional Growth

- Using a multi-factor partitioning model:

Regional Growth = national growth effect  
 + economic structure effect  
 + region specific (competitiveness) effect  
 + structure/region interaction effect

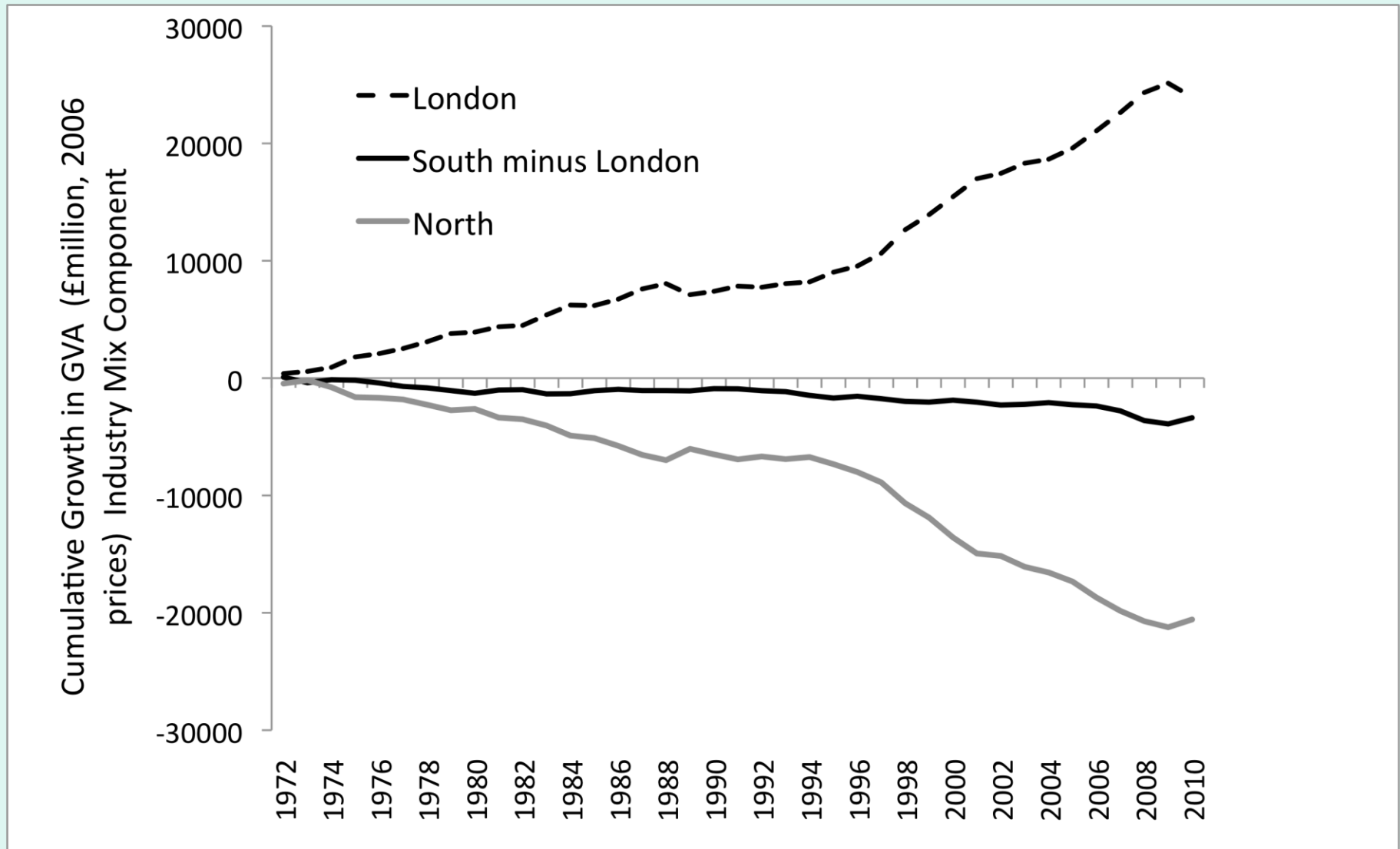
$$X_j^t(g_j - g_n) = \sum_i X_{ij}^t(\hat{g}_j - \hat{g}_n) + \sum_i X_{ij}^t(\hat{g}_{in} - \hat{g}_n) + \sum_i X_{ij}^t(g_{ij} - \hat{g}_{in} - \hat{g}_j + \hat{g}_n) + \sum_i X_{ij}^t(\hat{g}_n - g_n)$$

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

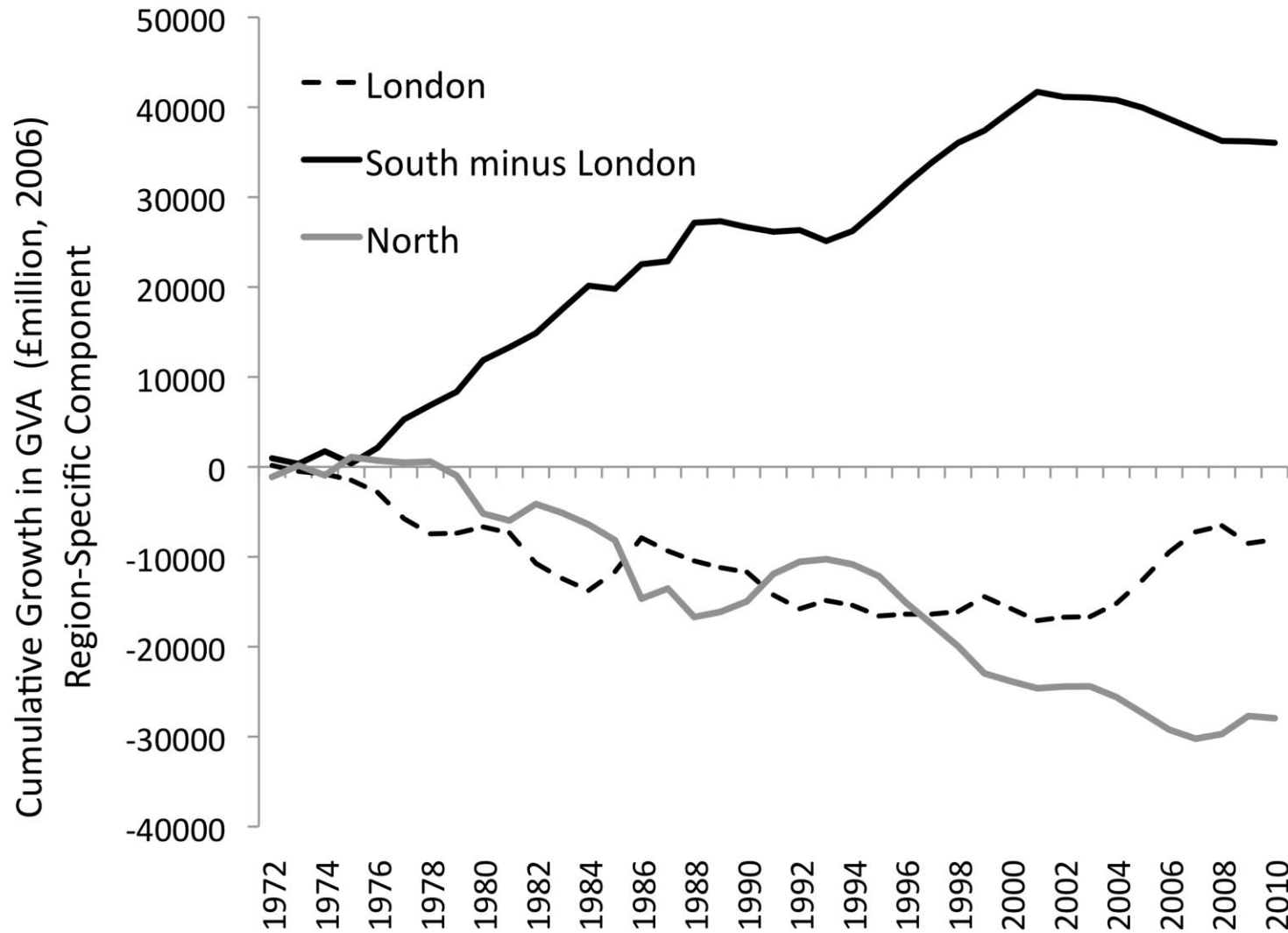
Where  $X$  is output (GVA),  $g$  =growth rate,  $j$ =region,  $i$ =sector,  $n$ =nation,

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

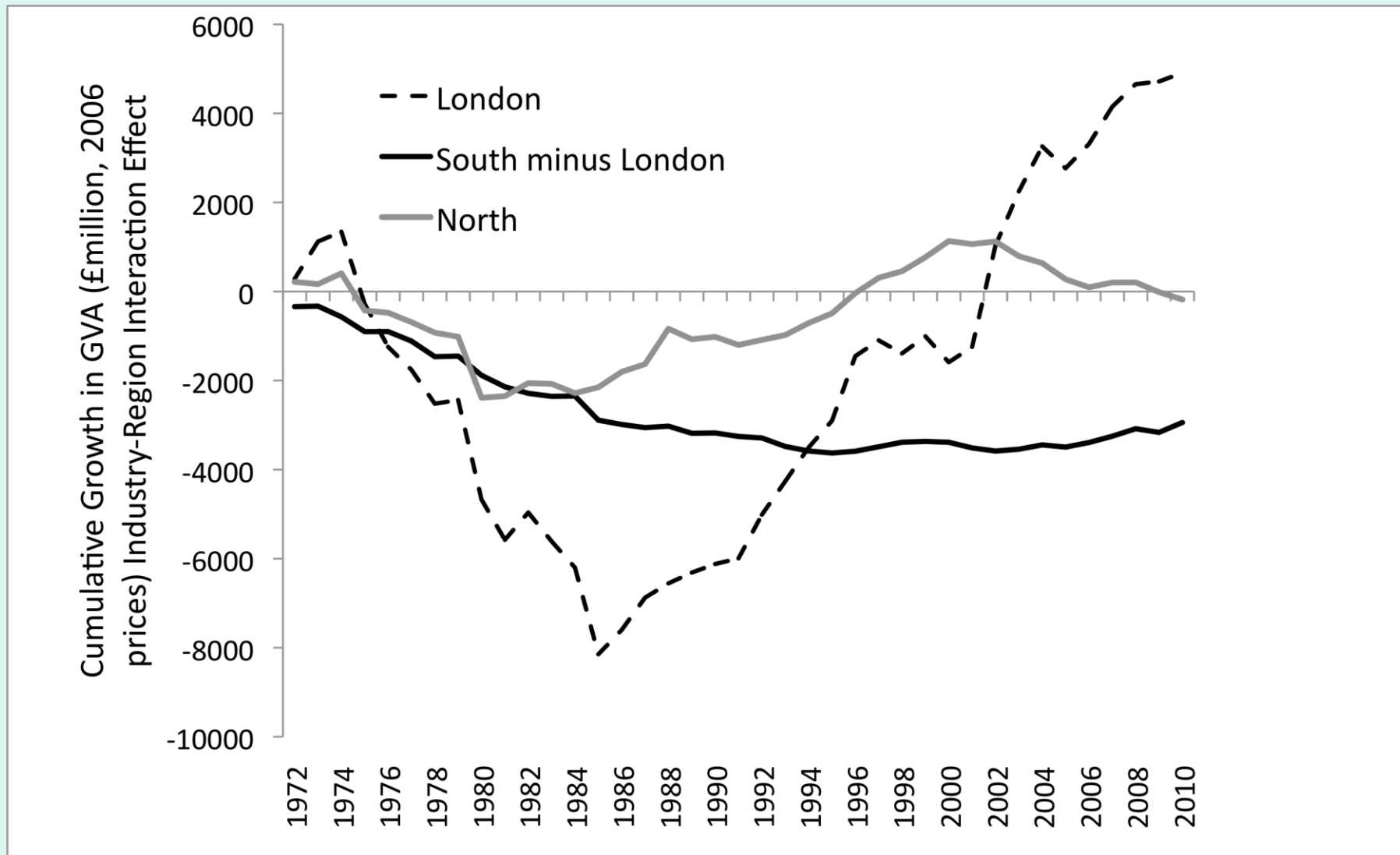
# Industry-Mix Component of Cumulative North-South GVA Growth Gaps, 1971-2010



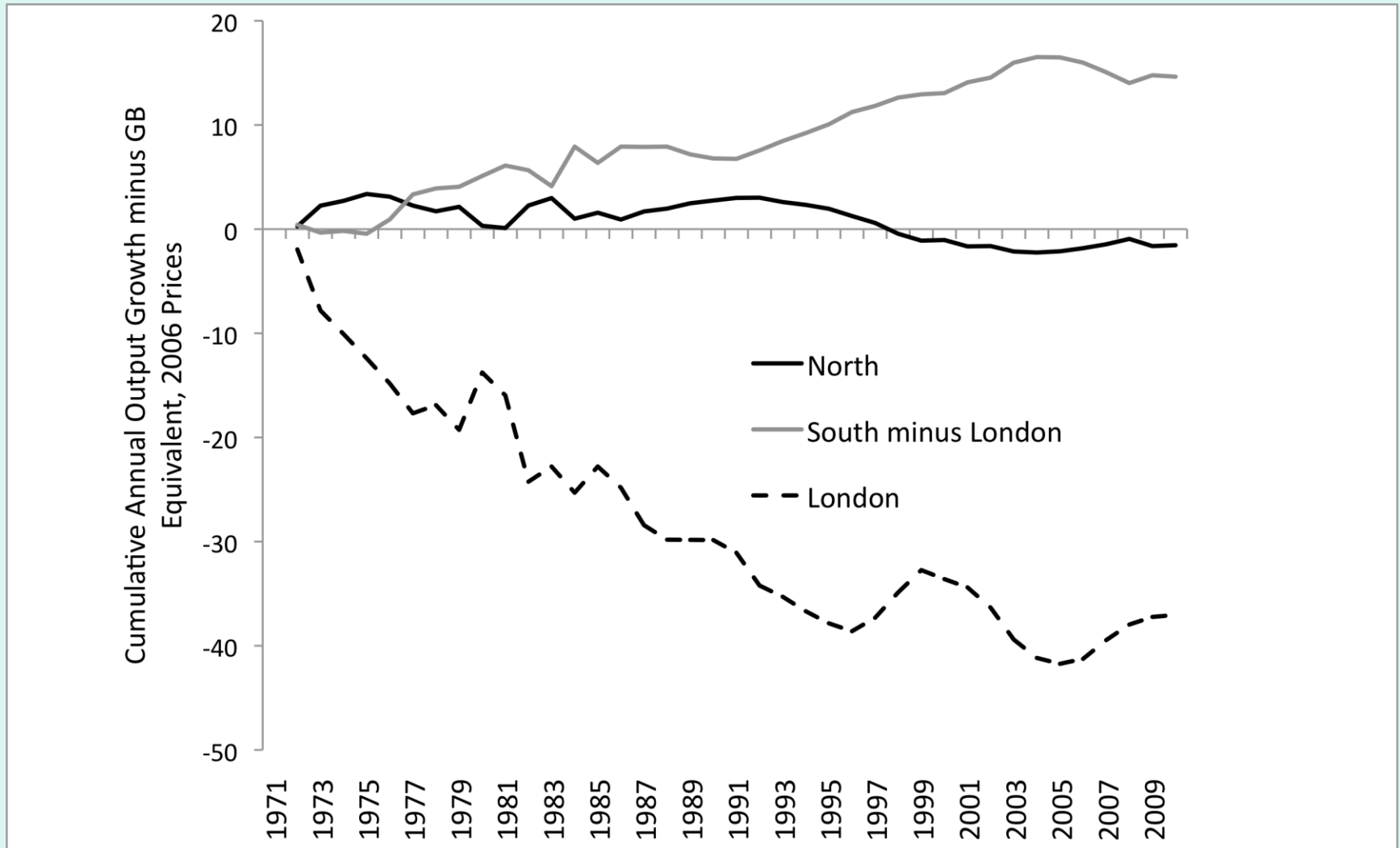
# 'Competitiveness' Component of Cumulative North-South GVA Growth Gaps, 1971-2010



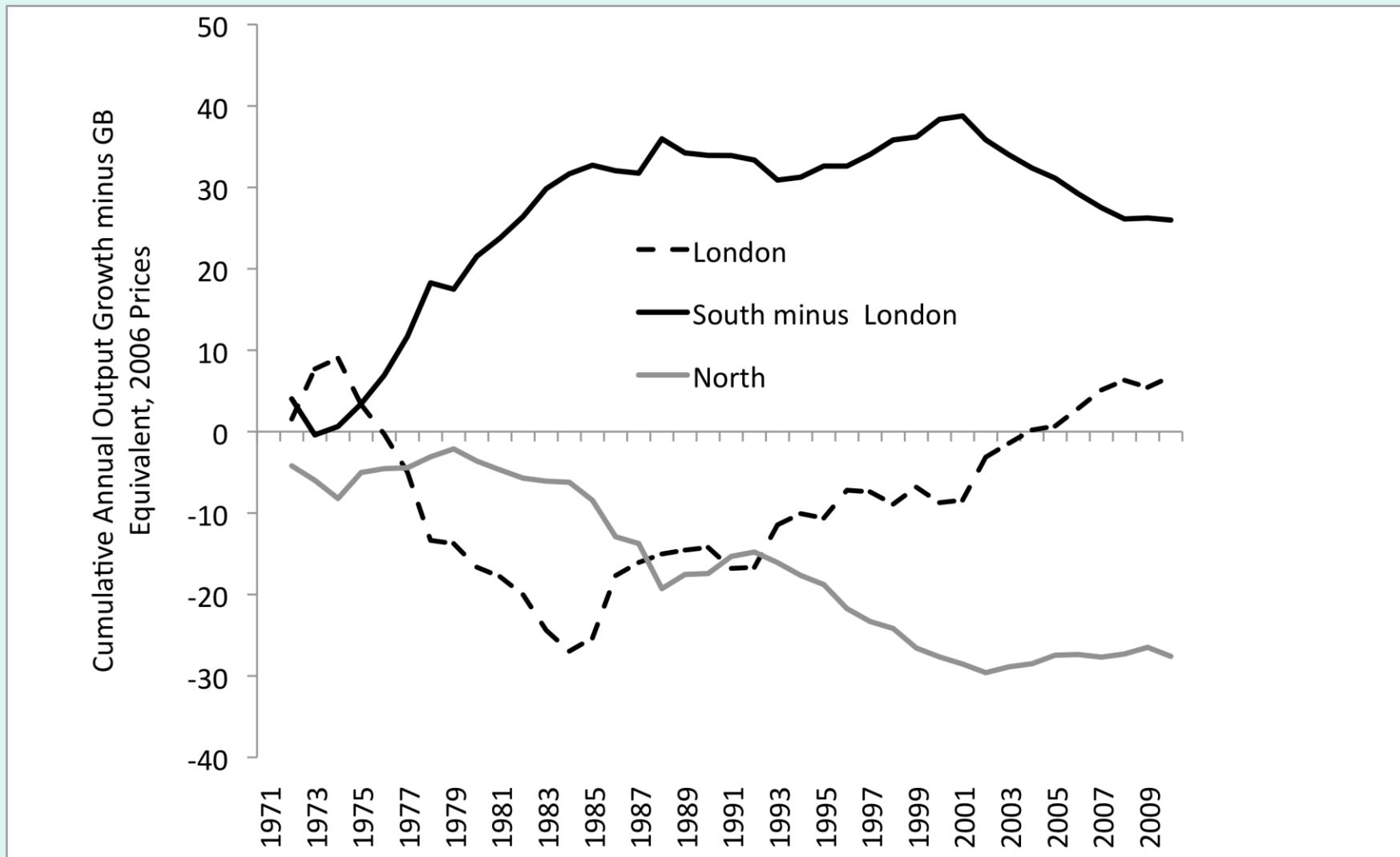
# Industry-Region Interaction Component of Cumulative North-South GVA Growth Gaps, 1971-2010



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

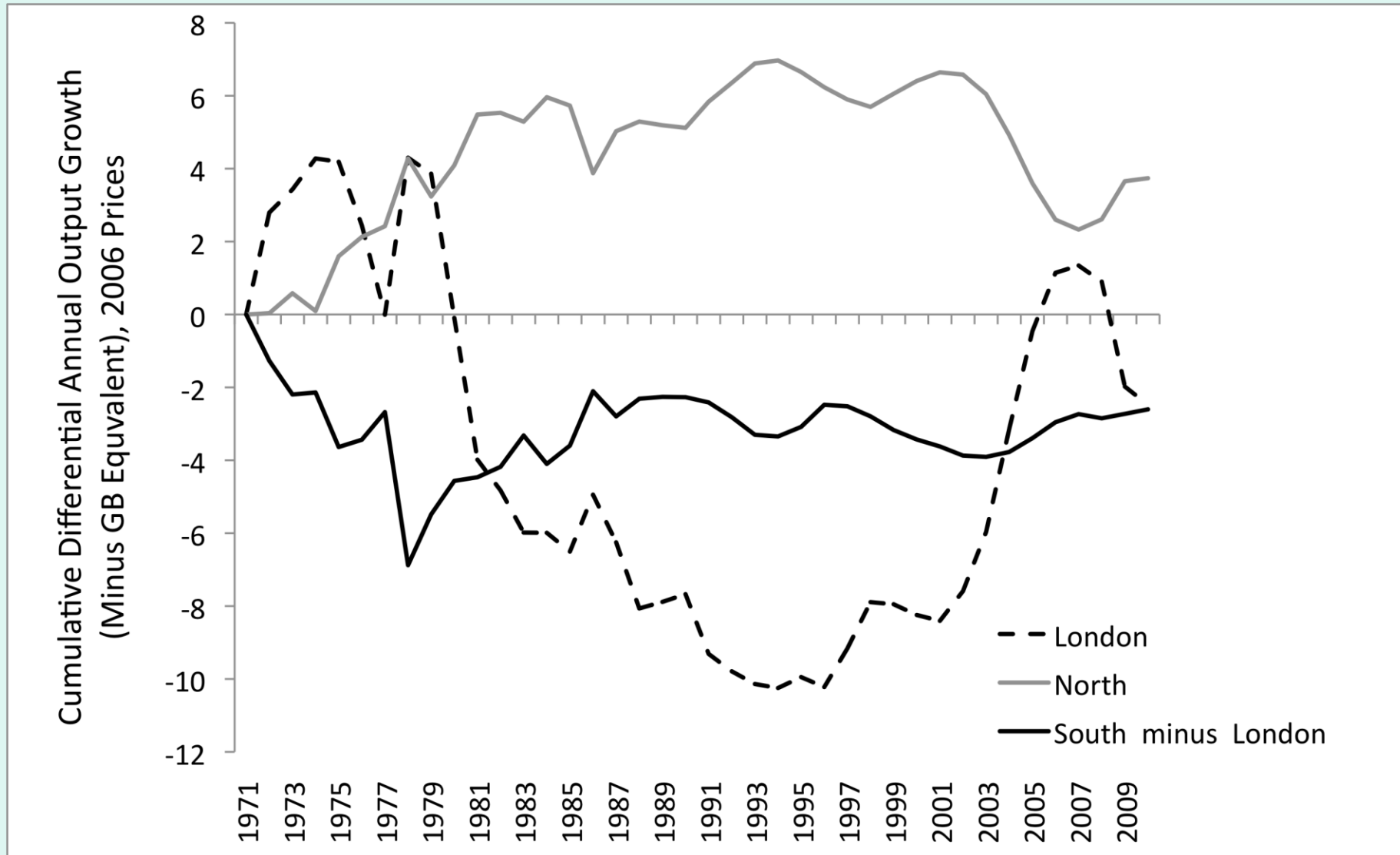


# The North-South Gap in Financial Services Growth (GVA, 2006 prices) 1971-2010





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



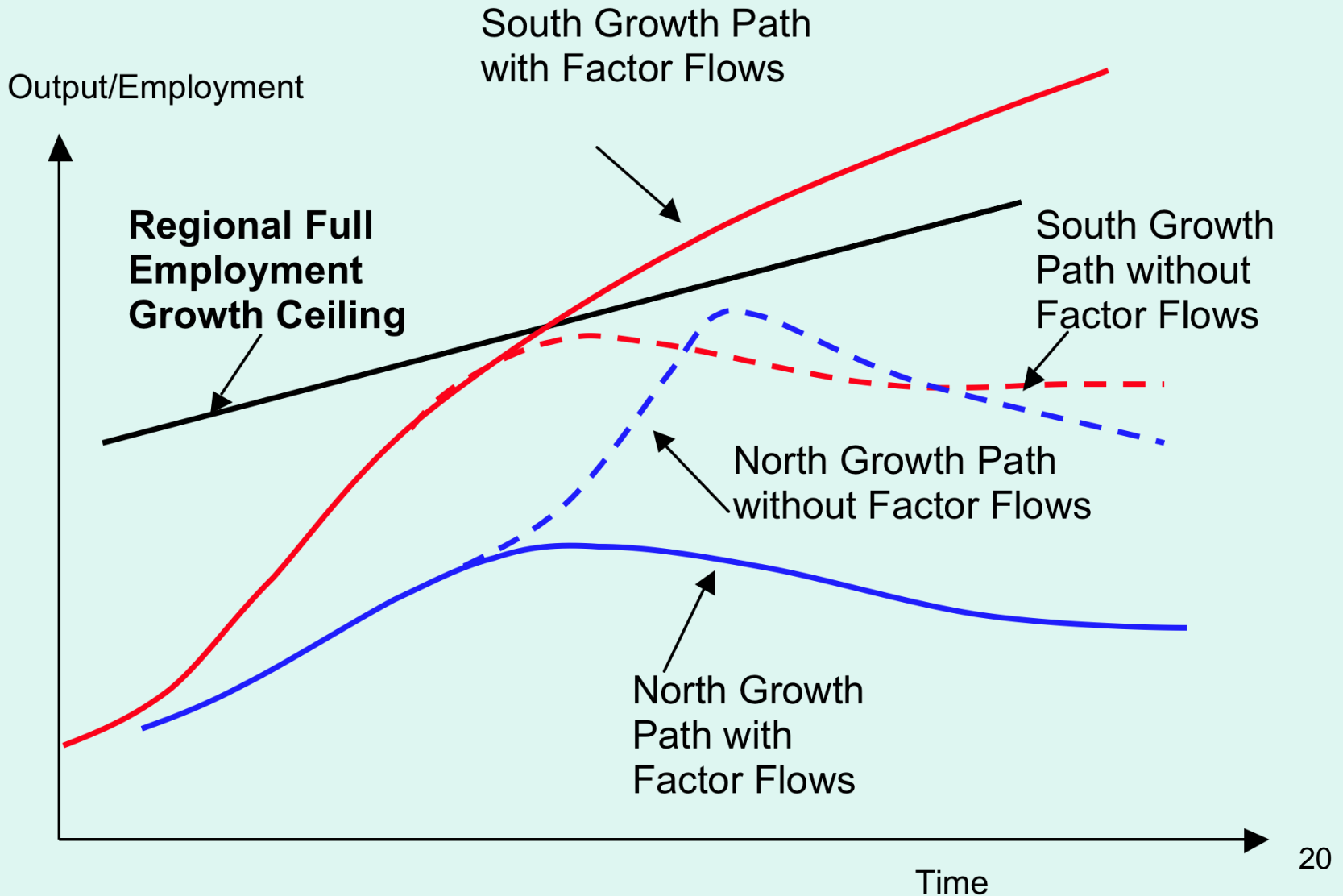
# Theorising the North-South Growth Gap

- Findings indicate that spatially unbalanced growth is entrenched feature of Britain's economy
- That sectoral imbalances account for much of this
- But also that regional differences in competitiveness' compound the problem
- Most theories suggest that left to market forces, the North-South growth gap in Britain will persist and possibly continue to intensify
- Strong increasing returns and cumulative causation processes at work

# Theorising the North-South Growth Gap

- Kaldorian models stress the role of export-base and productivity in uneven regional development
- Rowthorn's (2010) model highlights the progressive loss of Northern Britain's export base, and migration flows from North to South
- Dow's (1999) model argues that growth of major financial centre like London draws in capital from other regions, and fuels centre-periphery pattern of development
- Labour and capital flows from North to South in Britain have effectively raised the South's 'full employment growth ceiling', while lowering that of the North

# Combined and Uneven North-South Development



# The Policy Challenge

- Seventy years on, and after decades of regional policy, Britain still has problem of spatially unbalanced growth
- Coalition 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 resources committed are woefully inadequate
- And focus on relaxing planning regulations (the opposite to what Barlow recommended in 1940) could actually accentuate growth in the South relative to North
- And, crucially, no overall growth strategy

# 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, and especially in the North
- But there is no real strategy for reviving manufacturing
- There is now a case for an explicit targeted industrial policy
- Backed by a dramatic increase in resources, from both Government and by forging new relationship between banks and industry to boost investment in manufacturing
- But new 'spatial grammar' of economic policy-making also needed

# The Policy Challenge

- Heseltine's Report (*No Stone Unturned, 2012*) argues for major devolution of economic policy powers and spending by Government Departments into annual £50billion 'pot'
- For which LEPs would compete
- Public procurement also to be spatially targeted
- Combined with a pro-manufacturing growth strategy
- Devolution has assisted coordination in Scotland, N. Ireland and Wales, and is likely to go further
- North of England increasingly disadvantaged in this respect
- Perhaps regional fiscal federalism across English regions is needed to close the North-South growth gap?