

Levelling Up is Hard to Do: UK Regional Inequalities, Brexit and the Post-Covid Challenges

Philip McCann

University of Sheffield

UK Regional Inequalities

- *The Spectator* 1st December 2012
- “Broken Britain”
- *The Spectator*, “Another Country”,
14 April 2012
- *The Economist*, 30 November 2013
- “A Sticky Pitch for the Tories”

- ‘Levelling Up’ and ‘Rebalancing’
- Narratives have shifted dramatically very recently



UK Regional Inequalities

- Problems of the interaction between *geography, globalisation and governance*, and also the differing *perceptions* of how these interact – governance is also about perceptions
- The UK's ultra-centralised, top-down and space-blind governance system is uniquely mis-matched, badly-designed and ill-equipped to respond to these internal inequalities
- Philip McCann, 2016, *The UK Regional-National Economic Problem: Geography, Globalisation and Governance*, Routledge, London, 570pp
- Philip McCann, 2019, "Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK", 2019, *Regional Studies*, 53.5, 741–760

UK Regional Inequalities

- *Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.” Paul Krugman*

The Age of Diminished Expectations, 1994, MIT Press, p.11

- UK internal interregional inequalities are very high by international standards
- Not ‘urban vs rural’; not ‘big city vs small town’
- Spatial partitioning – ‘core versus periphery’: London & hinterland vs the rest of the UK (Scotland excepted)
- Partitioning of tradeables vs non-tradeables

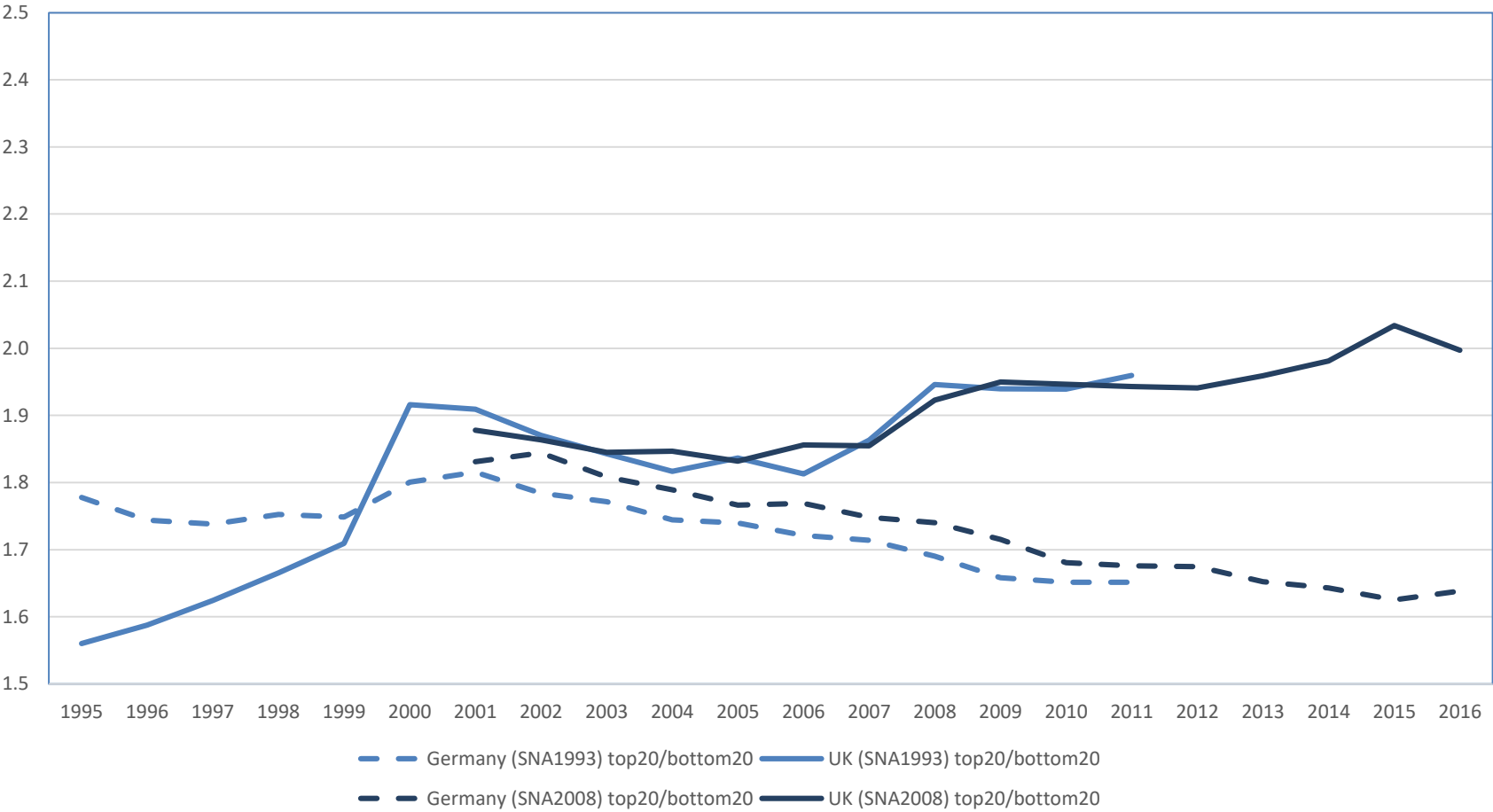
UK Regional Inequalities

- UK political economy debates regarding whether or not the UK has a serious ‘regional problem’ or if it is just typical of other countries
- Profound lack of awareness by ‘national’ media (*Financial Times* and *The Economist* excepted!), thought-leaders/influencers/shapers, think-tanks, academic institutions etc. regarding place-based issues
- Andy Haldane – ‘hub with no spokes’
- Problem of ‘metropolitan elites’ is related to governance centralisation – not urbanisation → governance in its broadest sense
- UK does have very high interregional inequalities over very short distances → perceptions and awareness

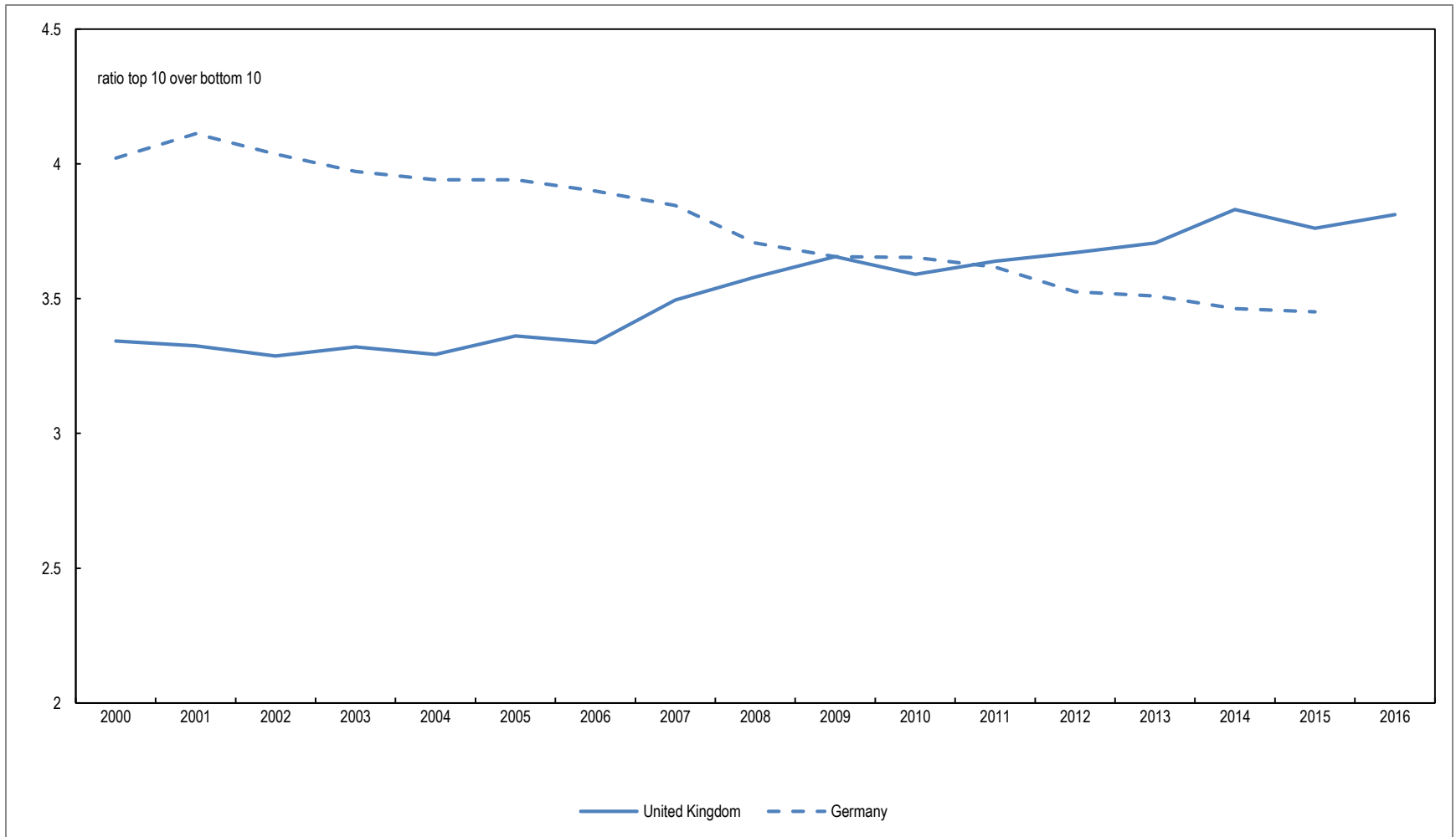
UK Regional Inequalities

- GDP per capita – half the UK population live in areas no better than the poorer parts of the former East Germany, poorer than parts of central and eastern Europe, and poorer than the US states of Mississippi and West Virginia
- OECD Multi-Dimensional Quality of Life: SE top 25%; L, SW, E top 50%; rest of UK bottom 50% – equivalent to Alabama
- Quality and accessibility of healthcare is similar to eastern Europe
- Civic engagement: SW & SE Top 50%, Rest of UK lower 3rd quartile
- Heritage allocations, R&D funding distributions
- UK local governance autonomy equivalent to Albania or Moldova

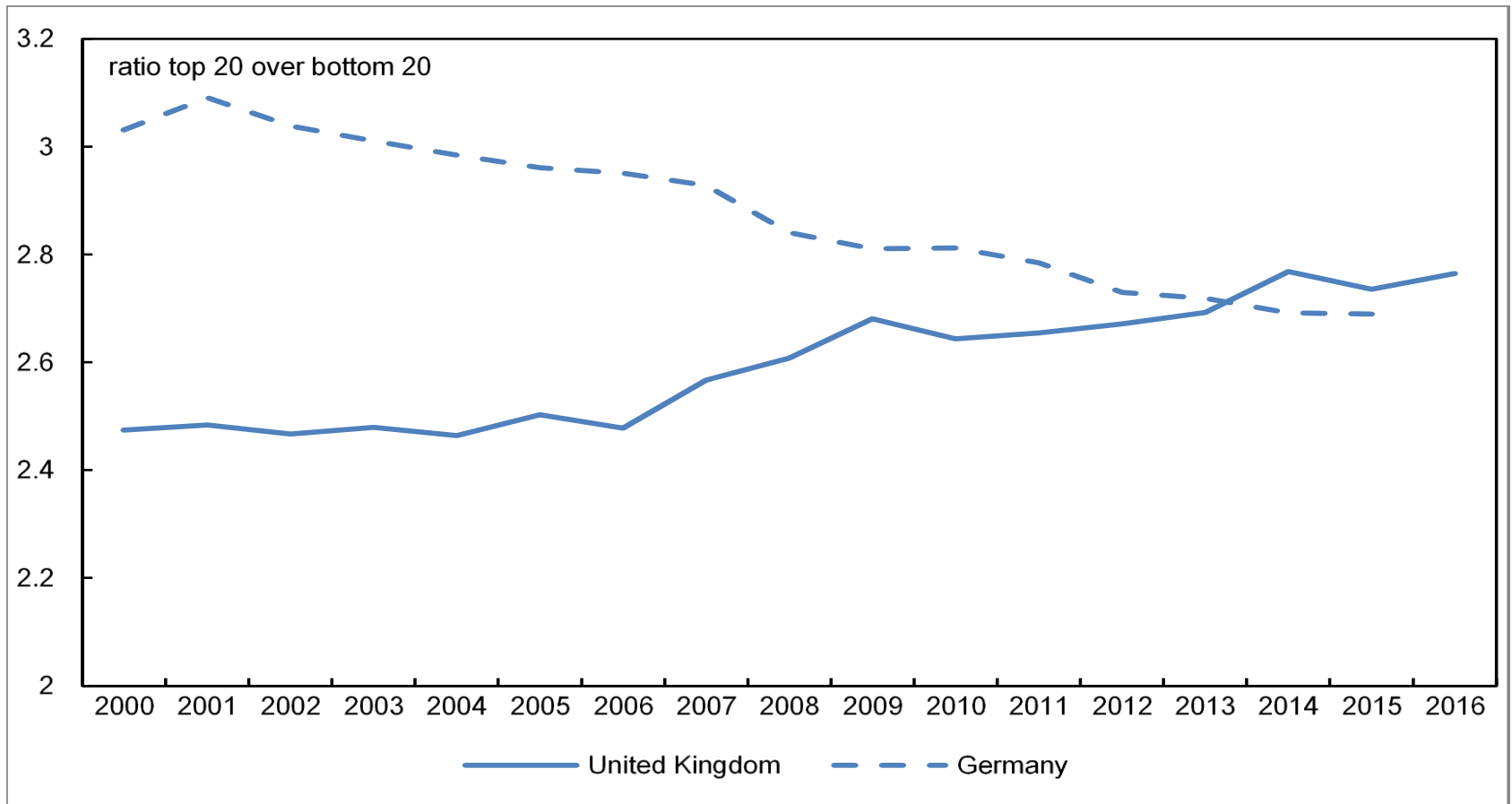
UK-Germany Comparisons: OECD-TL2 Regional GDP per Capita: Ratio of Top 20% over the Bottom 20% of the Population in UK and Germany 1990-2016 Using the System of National Accounts for 1993 and 2008



UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 10% over the Bottom 10% of the Population in UK and Germany 2000-2016

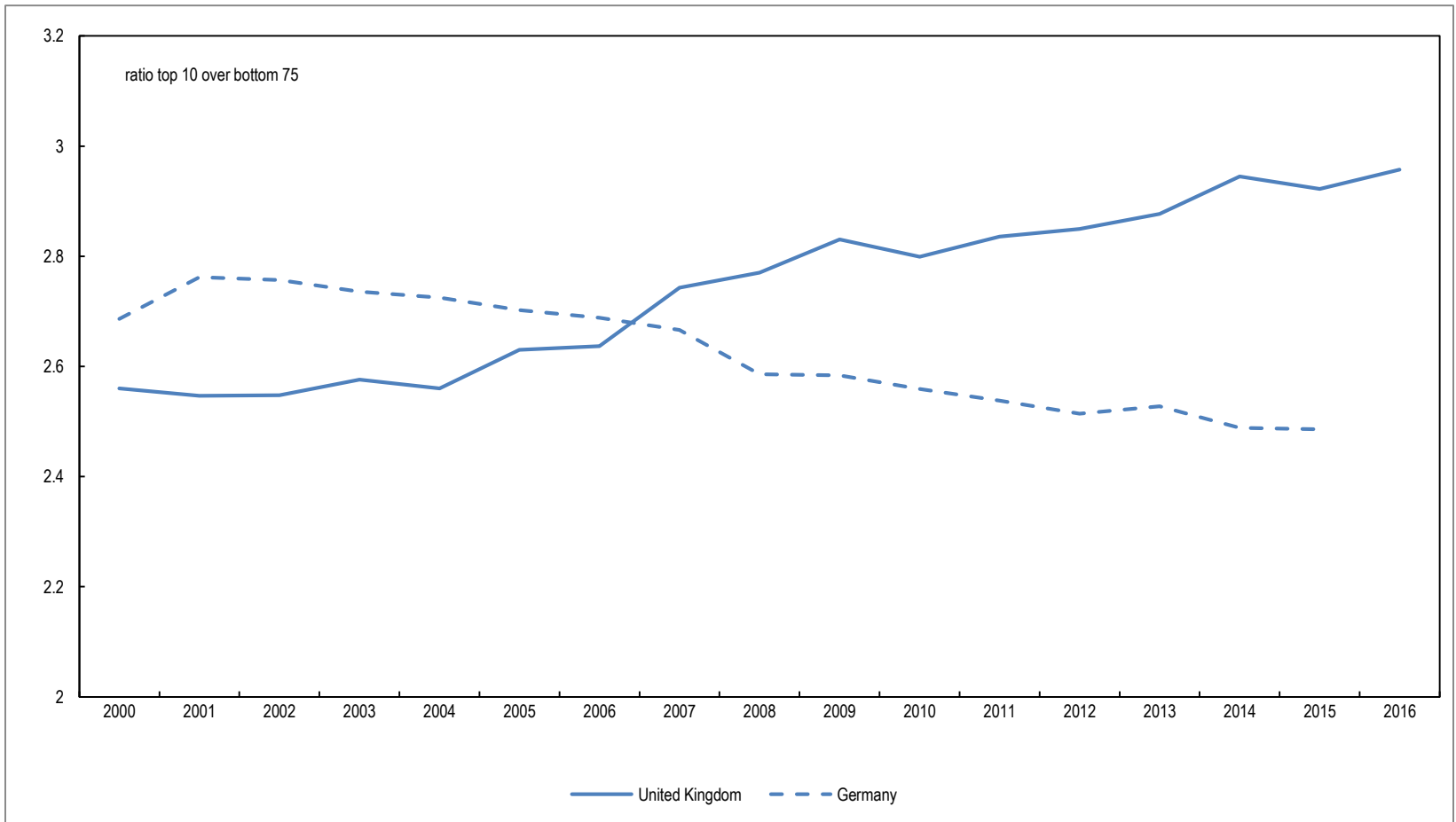


UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 20% over the Bottom 20% of the Population in UK and Germany 2000-2016



F

UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 10% over the Bottom 75% of the Population in UK and Germany 2000-2016



UK Regional Inequalities

- UK-Germany comparisons
- Similar national population densities
- Similar urban population densities
- Germany – €70billion per annum
- Germany productivity premium over UK today is more than West Germany over UK in 1990
- Germany was more unequal interregionally but now is much more equal

Ratio of the Top 20% over the Bottom 20% of the Urban Population by Countries 2001, 2008, 2016.

Ranking	Country	2001	Country	2008	Country	2016
1	IT	2.1753	PL	2.5367	PL	2.6486
2	DE	2.1056	IT	2.2315	IT	2.4049
3	CZ	2.0840	UK	2.0803	FR	2.1459
4	UK	2.0161	CZ	2.0371	UK	2.1238
5	BE	1.9287	FR	2.0278	US	2.0224
6	FR	1.8946	DE	1.9358	CZ	1.9029
7	US	1.8639	US	1.9309	ES	1.8608
8	ES	1.8148	BE	1.8428	DE	1.8593
9	PL	1.7389	ES	1.7314	BE	1.8517
10	KOR	1.6272	CA	1.6981	GR	1.6291
11	NL	1.5241	NL	1.6606	KOR	1.6072
12	PT	1.4819	KOR	1.6510	NL	1.5833
13	CH	1.4699	PT	1.5325	SE	1.5807
14	CA	1.4489	SE	1.4985	CA	1.5556
15	SE	1.4447	GR	1.4941	CH	1.4392
16	GR	1.4381	CH	1.4699	PT	1.4062
17	JP	1.4216	JP	1.4454	JP	1.3666
18	AU	1.1380	AU	1.3034	AU	1.3494
19	AT	1.1201	AT	1.0921	AT	1.0922

OECD Regional Database

Ratio of the Top 10% over the Bottom 75% of the Urban Population by Countries 2001, 2008, 2016.

Ranking	Country	2001	Country	2008	Country	2016
1	DE	1.8287	PL	1.869	PL	1.9087
2	UK	1.6636	CA	1.814	UK	1.7259
3	PL	1.5960	UK	1.7204	DE	1.6378
4	FR	1.5067	DE	1.7002	US	1.6022
5	KOR	1.5000	FR	1.5864	FR	1.5988
6	US	1.4920	US	1.5470	IT	1.5589
7	CZ	1.4270	KOR	1.5386	CA	1.5237
8	CA	1.4084	IT	1.4433	KOR	1.5126
9	IT	1.3796	CZ	1.4194	ES	1.3998
10	ES	1.3715	AU	1.3811	AU	1.3776
11	BE	1.2920	NL	1.3679	CZ	1.3493
12	SE	1.2142	ES	1.3291	NL	1.2721
13	JP	1.2121	BE	1.2446	SE	1.2561
14	NL	1.2076	SE	1.2293	BE	1,2181
15	PT	1.1867	JP	1.2139	CH	1.1998
16	CH	1.1622	PT	1.1993	JP	1.1669
17	GR	1.0975	CH	1.1622	PT	1.1575
18	AU	1.0822	GR	1.1080	AT	1.1525
19	AT	1.0527	AT	1.1001	GR	1.1327

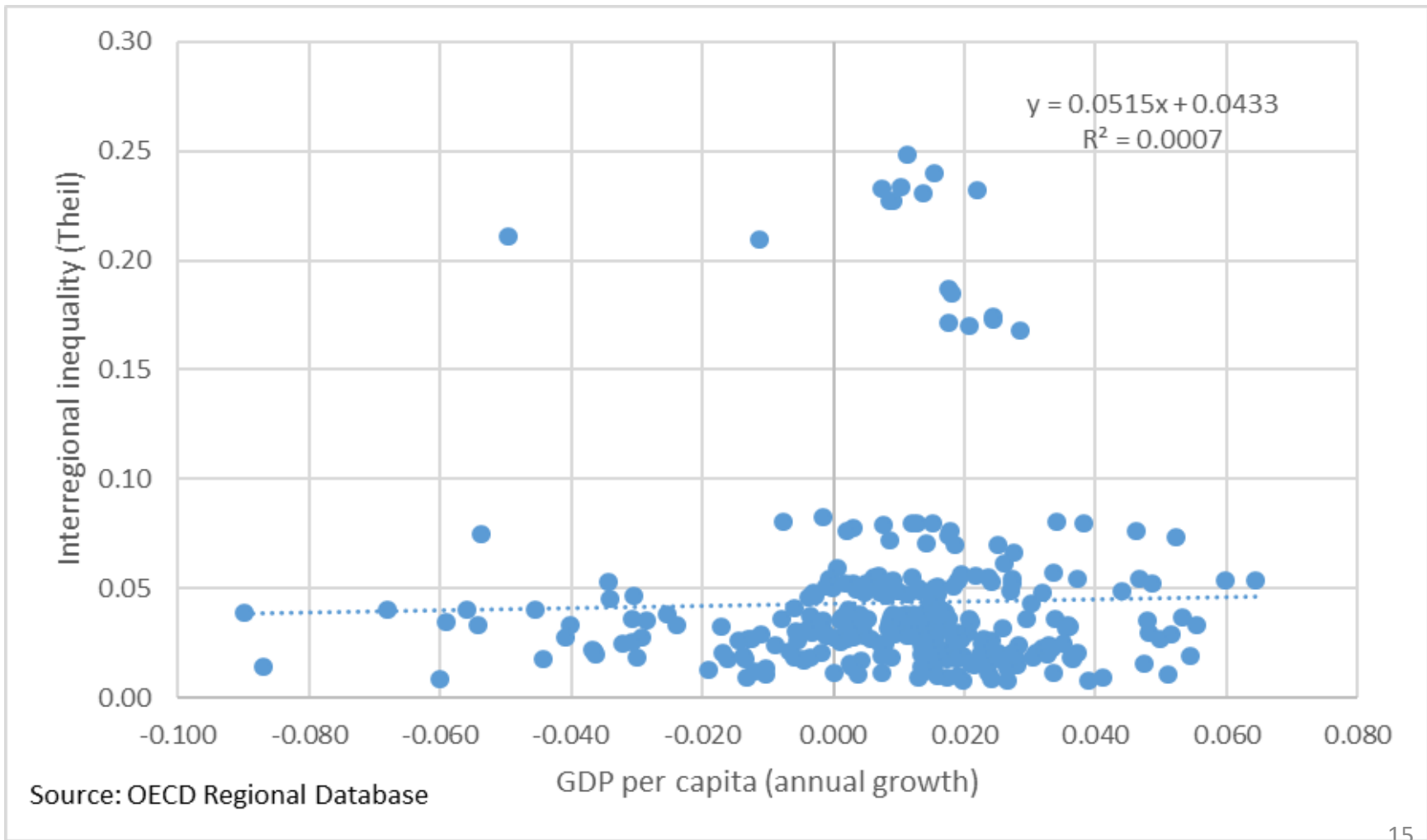
OECD Regional Database

Theil Index Ranking of Inter-Metropolitan Inequality by Countries 2001, 2008, 2016.

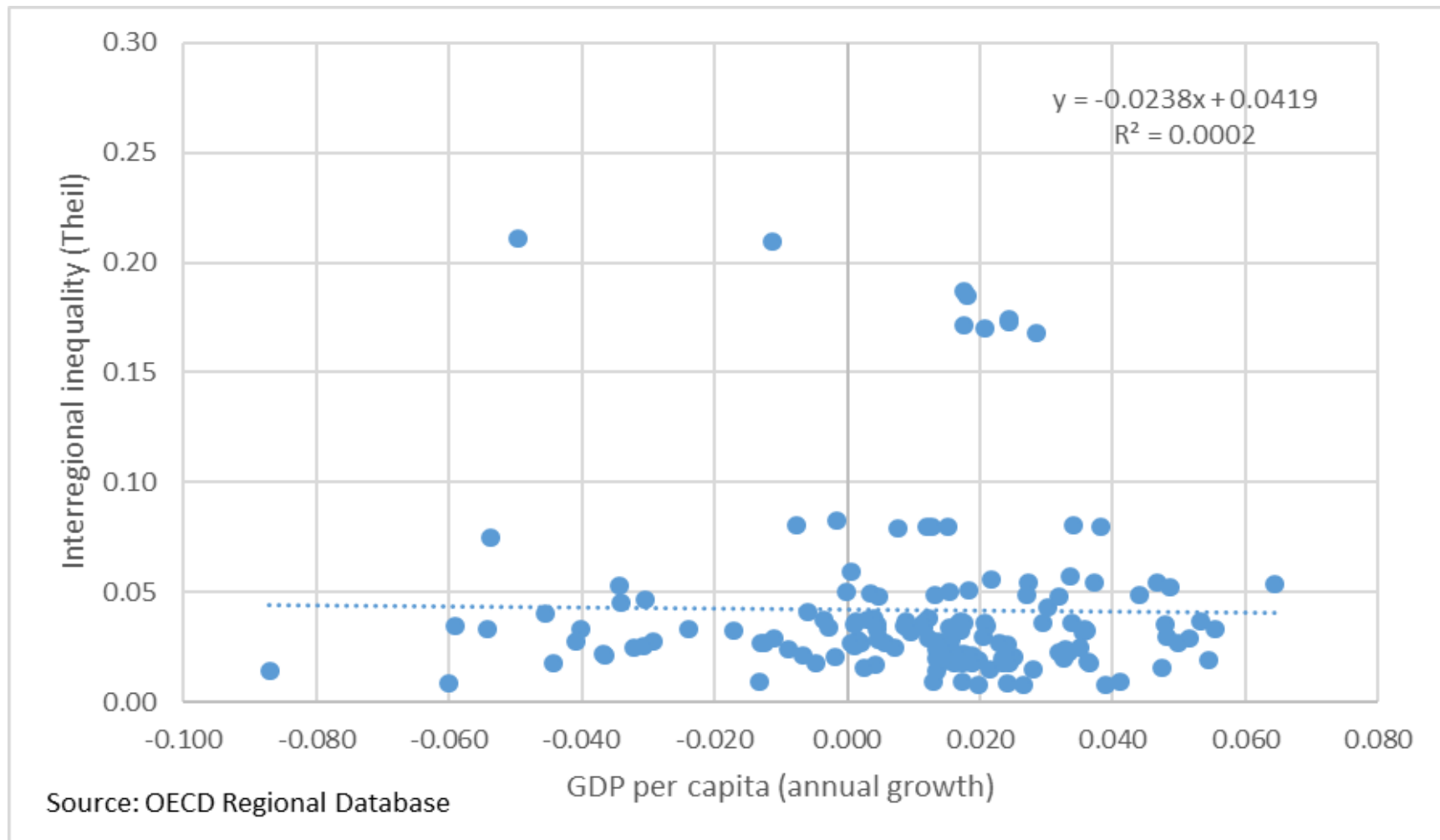
Theil Index						
Ranking	Country	2001	Country	2008	Country	2016
1	HU	0.0589	HU	0.0766	HU	0.0661
2	KOR	0.0447	KOR	0.0476	KOR	0.0435
3	CZ	0.0435	CZ	0.0473	UK	0.0350
4	BE	0.0349	US	0.0331	US	0.0341
5	US	0.0323	BE	0.0319	BE	0.0321
6	DE	0.0295	CA	0.0318	CA	0.0316
7	IT	0.0287	UK	0.0318	CZ	0.0314
8	UK	0.0283	IT	0.0272	IT	0.0311
9	ES	0.0235	DE	0.0251	EL	0.0310
10	PT	0.0196	PT	0.0227	ES	0.0269
11	SE	0.0125	ES	0.0223	DE	0.0225
12	FI	0.0125	NL	0.0221	NL	0.0187
13	CA	0.0124	EL	0.0198	SE	0.0181
14	FR	0.0109	SE	0.0144	PT	0.0164
15	NO	0.0084	CH	0.0143	FR	0.0156
16	DK	0.0081	FR	0.0134	DK	0.0155
17	JP	0.0068	FI	0.0091	FI	0.0143
18	AU	0.0022	NO	0.0082	AU	0.0122
19	AT	0.0013	AU	0.0080	CH	0.0116
20	CH	Na	DK	0.0080	NO	0.0064
21	EL	Na	JP	0.0076	JP	0.0060
22	NL	Na	AT	0.0016	AT	0.0023

OECD Regional Database

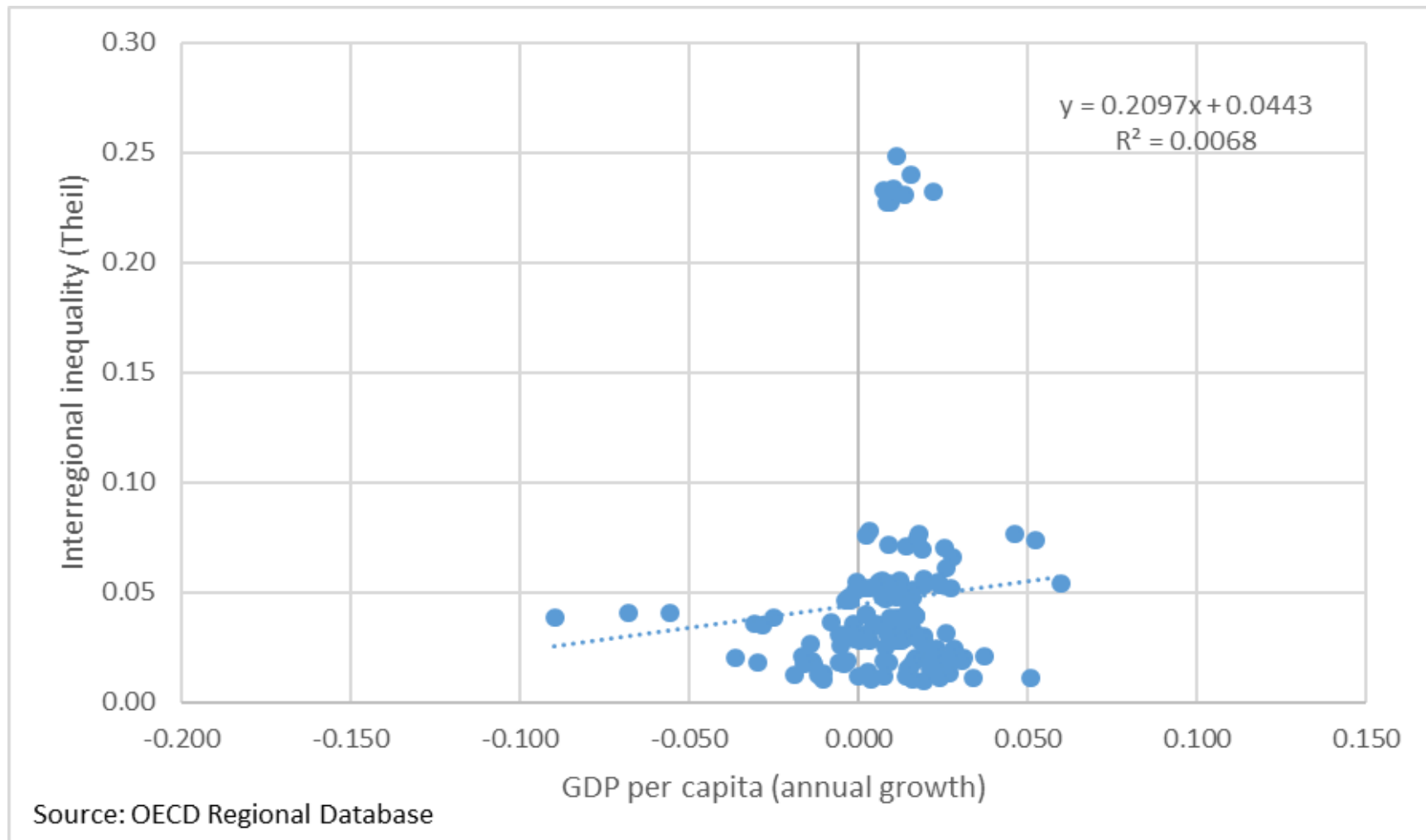
GDP per capita Annual Growth and Interregional Inequality, 2000-2017, OECD TL3 Regions (excluding former Transition Economies)



GDP per Capita Annual Growth and Interregional Inequality, 2000-2009, OECD TL3 Regions (excluding former Transition Economies).



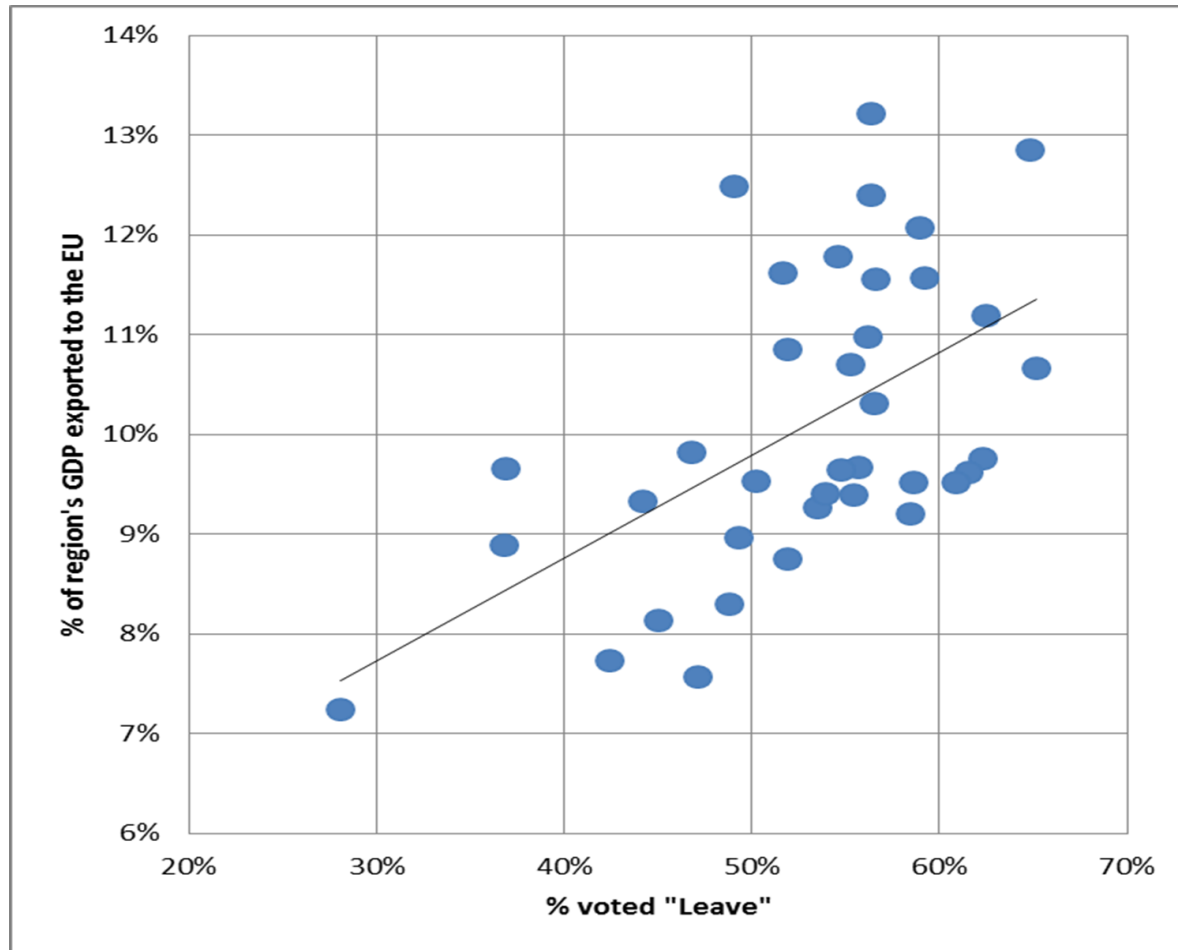
GDP per Capita Annual Growth and Interregional Inequality, 2009-2017, OECD TL3 Regions (excluding former Transition Economies).



UK Regional Inequalities

- Treatment of housing costs in regional and urban variations is not straightforward
- Real wages and equilibrium versus disequilibrium notions of migration
- Housing tenure implies different outcomes and affects these interpretations
- Relative versus absolute effects on happiness and *subjective* wellbeing
- Henry George effect on wages – Paul Collier and Tony Venables

Brexit



Brexit

- The Brexit vote was *'the right answer to the wrong question'*
- Political shocks reflect a *Geography of Discontent*
- Paul Collier → notion of a 'mutiny'
- The term *Geography of Discontent* has subsequently been used by the OECD, the European Commission, the Brookings Metropolitan Program
- Evidence from USA, Italy, Austria, European Union
- Notion of Places 'Left Behind': *The Economist*, 21 October 2017, "Left Behind: How to Help Places Hurt by Globalisation"
- UK borrowing from USA narratives → problems of language!
- UK debates now dominated by 'metropolitan versus non-metropolitan' narratives or 'cities versus towns' narrative → *a la Triumph of the City* – but these are not correct in economic terms

Coronavirus: Sectoral and Structural Shocks

- Global economy-wide shutdowns, disruption to Global Value-Chains (GVCs) and collapse of international demand
- Structural and sectoral shocks → specific challenges for hospitality, travel and tourism, automotive, high street retail
- Graduates and school-leavers' job-markets will be heavily undermined as will many education and training routes
- Transition from extraordinary to the 'ordinary'/'new normal' → investors, employers and households expectations are weakly grounded – fears of new waves of the pandemic
- No consensus regarding the speed or path of recovery – due to scale of the downward supply and demand shocks: V-shaped, Nike 'swoosh strip'-shaped, Z-shaped, W-shaped, U-shaped, L-shaped?
- Scale of scarring depends on the time to develop a vaccine

Coronavirus: Sectoral and Structural Shocks

- Bigger government debt and deficits – and ‘ownership’ of key parts of the economy
- Increased power and role of national government – but speed and scale of fiscal retrenchment uncertain - willingness of markets to lend to governments in unknown
- Possibility of increased automation, 3D-printing, more rapid introduction of Artificial Intelligence – heavily contingent on financial markets but avoids challenges of social distancing
- Experience of previous recessions – increased productivity but not the 2008 crisis
- Trade policy: some rationalisation of GVCs and ‘near-shoring’ of activities – but opportunities for this depend on existing global trade and network structures

Coronavirus: Capital Shocks

- Rapid move from 'normal' risk-determined times to Knightian *radical uncertainty* with expected further pandemic lags to a 'ordinary'/new normal
- Risks → non-measurable → risks
- Widening of yields and risk spreads both between and within all asset classes
- Massive capital reallocation – different forms of credit and lending, restructuring in money and asset markets
- Apart from 'Big-Tech' and biosciences/pharmaceuticals, probably Private Equity and some hedge funds are the only 'winners'
- Shifts to greater concentration and monopoly positions

Coronavirus: Capital Shocks

- Major challenges for SMEs – cut-backs in credit availability (squeezed from above as well as clawbacks) – and especially innovative SMEs (reduced bank credit, reversal of VC markets)
- Weakens the local entrepreneurship drivers of the innovation economy
- Real estate markets – closure and suspension of REITs, inability to value assets and development projects
- Shift towards land banking rather than development
- Yields are likely to rise the most in more riskier contexts, and in bigger and more complex developments – yield curve between weaker and stronger places becomes steeper

Coronavirus: Geographical Shocks

- Initial 2020 shocks: cities and more prosperous regions and then spreading outward → effects on the rest of regions longer lasting - similar to the 2008 crisis
- Widening of risk spreads across regions → increases interregional divergence
- Shifts to greater concentration and monopoly positions – tend to favour interregional divergence
- Greater governance centralisation associated with divergence
- Differences in places' ability to recover: ability to telework; structural diversity, human capital, connectivity, resilience → investors' shifting perceptions of relative risk

Coronavirus: Geographical Shocks

- Long-term: some reduction of commuting (increased share of home-working) – but not for high-value activities built on tacit information
- Potentially widens hinterlands of prosperous cities
- High Street retail shocks – especially in weaker places
- Shocks to the built environment in cities – reconfiguration of workspaces - redesign, postponement or cancellation of real estate developments
- Problems for university cities vis-à-vis international students
- Progress towards Sustainable Development Goals and Paris Agreement targets may be interrupted or reversed by the recovery process – only temporary reduction of GHGs

Levelling Up Challenges: Place-Based Thinking

- Not ‘people-based versus place-based’ → but ‘people in places’: ‘People sorting’ narrative given too much weighting – place-based local development traps
- Place-based institutional reform and devolved decision-making for building local stakeholder and citizen engagement and locally-tailored decision-making → horizontal local coordination across silos
- Questions of incentives, mutual obligations, fiscal stabilisers, trust-building (Ostrom, Rodrik, Barca)
- Need to fundamentally rethink national ↔ sub-national institutional and governance structures and systems, balance of responsibilities and long-term financial positions in different arenas of governance

Levelling UP Challenges: Place-Based Thinking

- ‘Levelling up’ challenge: combination of Covid-19 & Brexit
- Both point simultaneously towards greater regional inequalities
- Devolution challenge: Scale matters!! Both for economic units and also for governance units
- Problems of devolution in England – too small and too fragmented by OECD standards
- Devolution requires fiscal underpinning – interregional stabilisers
- Deal-making devolution cannot be a long-term template – because of horizontal coordination mis-alignment

Levelling Up Challenges: Place-Based Thinking

- Key UK geographical problem is the under-performance of large UK urban areas outside of the Greater South and South East
- Danger of ‘cities versus towns’ narrative or ‘urban versus rural’ narrative - coastal towns are largely a symbolic issue
- LEPs and Local Industrial Strategies – no real logic to design
- Shared Prosperity Fund should not be a top-down or competitive system
- Pandemic coordination experiences: need to learn lessons country-by-country of what worked well and what did not (not just English-speaking countries!)
- Covid-19 and devolution questions around devolved healthcare