

» **DIVIDED AND CONNECTED**

REGIONAL INEQUALITIES
IN THE NORTH, THE UK AND
THE DEVELOPED WORLD

STATE OF THE NORTH 2019

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November 2019

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This paper fulfils IPPR's educational objective and helps to relieve poverty and unemployment by analysing and drawing attention to the regional inequalities of the UK.



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SUMMARY

2019 has exposed the country's regional divides more than ever. Economic uncertainty, exacerbated by the tone of the Brexit debate, has permeated every region, town and city. But even as the Brexit debate raged in Westminster, the major parties remain distracted from the task of addressing its root causes, and people across the UK feel more disempowered than ever.

The UK is more regionally divided than any comparable advanced economy. Our analysis finds stark regional differences in productivity, income, unemployment, health and politics. We are not the only country to have regional divides, but our regional inequalities in productivity, income and health are far worse than in any comparable country. These divides are not straightforward and they defy simplistic interpretation: the 'North-South divide' omits high poverty in London and the South West; the 'cities versus towns' debate ignores affluent towns and stagnant cities.

Centralised governance is a major cause of economic problems in all regions. The UK is the most centralised country of its size in the developed world and this has led to many flawed policy choices: instead of developing sustainable and resilient economies across the country, central government has prioritised short-term economic returns in London and the South East – which often fail to benefit even the people living in these regions, let alone those living in other parts of the country. This is especially a problem in England – which is the largest, but also the most centralised and unequal of the UK nations.

But these severe divisions result from our ever-increasing interdependence. Our regions are connected to each other and to regions across the world. Businesses' supply chains stretch between regions; people move between regions and live and work in different places at different times; regions also trade with one another and with the global economy in important ways. Perhaps most importantly, climate change has brought into sharper focus the interdependence of the world's regions. Understanding and developing the connections between all of our regions – not just with the capital – is more important now than ever before.

More devolution can help the North thrive and support the whole country's future prosperity. The north of England's economy¹ is larger than the economies of most EU countries and it has a significant inheritance of economic assets – from its thriving cities and towns, to its natural assets, ports and windfarms off its coasts. Already, the North is showing what it can do with limited powers that have been passed down to metro mayors and through devolution deals. But the North will need more clout, more funding and more fiscal autonomy to reach its full potential.

2020 must be the year when power is returned to the North and to all of England's regions, towns and cities. For many years to come, the government will remain focused on addressing Brexit – whatever happens in the coming months. Regions, towns and cities across England must be empowered to tackle the severe regional divides our centralised governance has created.

1 Our definition of the North includes the North East, the North West and Yorkshire and the Humber.

INTRODUCTION

At a time of great upheaval, uncertainty and division, instead of looking inward this year's State of the North looks outward – to the country and across the developed world to show how the North fits into a bigger picture. We investigate how divided but interdependent we are as a country, comparing the UK to countries overseas.

We show how centralised governance has been an especially acute problem for the UK and discuss how it has exacerbated our regional divides.

Finally, we show how devolution could be a source of hope and real change. We highlight the pioneering northern mayors who have already shown what devolution can do, even with their limited powers. We conclude by setting out the ambition for the North in 2020.

CONTEXT

2019: A disruptive year for the North and the nation

2019 has seen great upheaval for the North and the country as a whole. The government has pushed a narrative of economic disruption and instability to gain political advantage in Westminster, and this is having enormous consequences for people and organisations in all parts of the UK – especially in the North.

The North is highly vulnerable to Brexit. Whatever form this takes, many places in the North will be hit harder than other regions, and a 'no deal' Brexit threatens to have profound, negative effects on vital supply chains and local economies (Chen et al 2017, HM Government 2018). This would affect a range of people – whether skilled workers at 'just-in-time' car manufacturing plants fearing for their jobs, or settled EU migrants uncertain of their future status in the UK.

But while parliament has spent a considerable amount of time debating the various forms that Brexit could take, and the Conservative party switched leaders – replacing our prime minister – the uncertainty and fear of a no-deal Brexit has permeated all corners of the economy.

Since 2016:

- foreign direct investment jobs fell by 44.3 per cent in the UK and by 57.6 per cent in the North (DIT 2019, Tamberi and Bochert 2019)²
- international migration fell by 3.6 per cent UK-wide – by 2.3 per cent in the North, and 6.0 per cent in the North's city regions (ONS 2019a)³
- national GDP slipped into a single quarter of contraction in Q2 of 2019, and new regional GDP figures suggest that several regional economies have seen quarterly contractions since 2016 – including the three northern regions (ONS 2019b, 2019c).⁴

Across the UK's nations and regions, Northern Ireland remains – rightly – prioritised. The presence of devolved administrations allows Scotland and Wales to take a position on Brexit and press central government to address their concerns and priorities. But the piecemeal nature of devolution in

2 New and safe jobs.

3 Inflows into the UK.

4 The West Midlands, East of England and South West also saw two consecutive quarters of contraction since 2016.

England means that its regions, towns and cities have no such opportunity (Giovannini 2019).

Brexit has also pushed the most pressing global issue – climate change – to the margins of Westminster’s agenda. In the North, across the country and around the world the climate crisis has finally cut through to the mainstream – a large swathe of the population now appears to recognise that this is an emergency that must be addressed (Laybourn-Langton et al 2019). Young people in the North joined those across the world in successive climate strikes to pressure politicians into action. But despite increasingly obvious signs of climate change and the threat of catastrophic outcomes, tackling the issues remains down the list of this government’s top priorities as the Brexit debate holds centre stage. Yet again our centralised governance has played a major part in holding us back, as the lack of devolution – especially within England – prevents the local action needed to reduce emissions, bring forward new innovations to tackle the crisis, or manage a ‘just transition’ so that people and their communities don’t suffer as a result of the necessary industrial change (Emden and Murphy 2019).

The Northern Powerhouse evolves

2019 was also a milestone for the Northern Powerhouse agenda: it marked five years since George Osborne introduced the Northern Powerhouse in 2014, but also nearly 10 years since the start of his austerity programme – which has hit the North harder than most other regions (Raikes and Johns 2019). Since 2014 the North has seen 200,000 more children in poverty, 150,000 more people in low paid work, and the number of trains delayed or cancelled has doubled (ibid).

This exposes the fact that, once again, the North has been subject to the whims of central government. Every new announcement by a visiting Westminster politician serves as a reminder that, despite calls for devolution, key decisions about the North’s future are still taken from afar by remote politicians – often electioneering, even outside of a defined campaign period. Deprioritised under May’s premiership, the Northern Powerhouse has been quickly re-politicised by Boris Johnson. It is no coincidence that he visited the North within days of becoming prime minister.

Johnson has already made grand promises to the North of more investment and power. These include: commitment to fund Northern Powerhouse Rail, devolution of rail franchising, funding for bus regulation and a new pan-northern ‘growth body’ – in line with IPPR North’s recommendations (Raikes 2019). The North will also receive some funding from national pots such as the Transforming Cities Fund and the Stronger Towns Fund. These additional powers and extra funding are of course welcome – and the government’s recognition that devolution and investment could benefit towns, as well as cities, is long overdue.

But in reality the government has yet to give much new money or real power to the North. Even taken together, their funding schemes are a drop in the ocean compared to the austerity the North has endured for the last decade, and the promised devolution hardly begins to rectify the overwhelming centralisation of power in England. The government’s funding allocation processes are an exercise in blatant centralisation – or ‘centralised decentralisation’ – that pit local enterprise partnerships (LEPs), local authorities and combined authorities against one-another. So instead of collaborating and developing transformative place-based strategies that are tailored around the needs of their areas, they have to use their limited capacity to compete for central government funding or meet Whitehall’s requirements. In the end, most places will receive little or no funding or power from central government. Even more importantly, the areas that need the most support are likely to miss out altogether – especially those outside metropolitan areas (Centre for Towns 2017).

There is particular concern over the government's promises to deliver big infrastructure for the North. HS2 has been 'paused' and there are suggestions that it might not be completed – either by scrapping the northern section of HS2 altogether, or leaving only the section running directly to Manchester and not to Leeds – against what was recently promised by the PM. Worryingly the government is currently imposing conditions on long-overdue northern transport investment by demanding northern leaders choose between a Northern Powerhouse Rail underground station at Manchester Piccadilly or a city centre station in Bradford (Bounds 2019). If the North had received the same transport spending per person as London has for the last 10 years, then £66 billion more would have been spent – which puts this discussion in context (Raikes 2019).

Moreover, these new promises are now tainted by a re-politicisation of regional policy ahead of the general election – there is a temptation to make big vows without any thought for delivering them. The new focus on the Northern Powerhouse and towns agendas appears to be related to the need for the Conservative party to win over northern towns in an election (Williams 2019a). Johnson's recent pledges therefore risk a similar outcome to May's ill-fated attempts to address the nation's 'burning injustices', or indeed many of Osborne's promises to the North. Northern leaders are right to be wary of prime ministers bearing gifts.

On the opposite side of Westminster's chambers, the Labour party's national leadership also stepped up their offer for the North in 2019. The party has pledged significant investment in regional economies – a total of £500 billion of public and private money – and the shadow chancellor John McDonnell proposed breaking up the treasury and moving a new National Transformation Fund Unit to the North (Williams 2019b, Labour Party 2019). Their 2019 manifesto also includes a pledge for regional offices of government, as well as ensuring a regional voice in Whitehall (ibid). These are major, potentially transformative, proposals.

However, these are promises of what central government will do to the regions. Despite a strong history of devolving power to Wales, Scotland and Northern Ireland, Labour's record in England is less favourable – on the one hand, the legislation that allowed combined authorities to form was originally pioneered by Labour; but on the other, the referendum in the North East appeared set up to fail. The current leadership has also made several statements of support for the principle of devolution in 2019, but the party has not yet set out the details of how they will devolve in practice.

Of the North, by the North, for the North

Despite Westminster's chaos and electioneering, the North is moving forward. The four metro mayors elected in 2017 and 2018 were joined by a fifth this year, as Jamie Driscoll brought forward a notably left-wing platform to the North of Tyne Combined Authority mayoralty. These mayors now govern almost half the North's population and in 2019 moved into their stride with a slew of new interventions – from Liverpool City Region's Strategic Investment Fund, to Greater Manchester's 'Opportunity Pass'. A little over two years into their terms, they are proving the case for devolution in the actions they take. It is still true however that, despite the diversity and dynamism of the areas they govern, there are no female or ethnic minority mayors.

2019 also brought a step change in pan-northern policymaking and collaboration. In January Transport for the North set out its Strategic Transport Plan and over the summer has been campaigning hard for a 'northern budget'. This year also saw the NP11 (formed in 2018) move forward, and the revival of pan-northern economic policy⁵ as the North's LEPs begin to collaborate around shared priorities and

5 Which had been dormant since the demise of the Northern Way in 2010

themes. Over the summer, the #PowerUptheNorth campaign, led by 33 northern newspapers, piled pressure on Westminster to follow through on their promises to the region. The Convention of the North brought the North's diverse stakeholders together in September.

Devolution is clearly taking root in the North and is enabling local leaders to turn the Northern Powerhouse into a project *of the North, by the North and for the North* (Raikes et al 2018).

But while the North has been relatively successful in taking some power back from central government, the process of devolution itself remains deeply flawed. A large swathe of the North has taken up the devolution deals on offer in exchange for a metro mayor. But the approach by which they have done so remains profoundly inadequate: it is dominated by central government – at the discretion of secretaries of state and held back by local MPs' concerns; it is based on an opaque process of backroom deals without any clear terms of reference; it still tends to benefit metropolitan areas more than rural and coastal ones; and there is still no option for areas that don't want a combined authority or a directly-elected metro mayor.⁶

Devolution to Yorkshire has exposed many of these problems (Giovannini 2018). It is encouraging to see the Sheffield City Region Combined Authority devolution deal finally moving forward, whilst West Yorkshire also seems to be getting closer to agree a 'devo deal'. However, the ambitions of local leaders to achieve a One Yorkshire deal by 2022 have so far been thwarted by some ministers and MPs – exposing the limits of the government's support for the 'bottom up' approach to devolution they claim to endorse.

The prospect of a new parliament offers an opportunity to address these current shortcomings, and to finally present a framework and process that would introduce some coherence – and fairness – into England's sub-national governance (Hunter 2017, Raikes and Giovannini 2019).

2020: Challenges ahead

2020 promises to be another eventful year. A new government will take office – its composition unknown at the time of writing. But regardless, Brexit will continue to hold centre stage for years to come – even if we leave the EU.

But this could be a year where we look to the root causes and solutions for the widespread discontent and division we are experiencing.

To that end, 2020 will also be a landmark year for devolution in England. On 7 May we will hold the largest mayoral vote in the country's history as mayors governing London, the West Midlands, Greater Manchester, Liverpool City Region and Tees Valley – a total of 16.8 million people – go to the polls (ONS 2018a). And whichever government is in Westminster, we can expect further bottom up pressure to devolve in a more coherent and inclusive way.

⁶ The Grimsby town deal is one of few examples, but its remit is still limited in comparison to the devolution deals offered to city regions, and there is still a high degree of control from central government over the deal.

1. DIVIDED

The UK is commonly described as the most regionally unequal country in the developed world. This trend is particularly marked in England – where the notion of a ‘North-South divide’ has been used as a shorthand for regional inequalities and their root causes (Giovannini and Rose forthcoming 2020). Most recently, and especially in the aftermath of the Brexit referendum, the cleavages between metropolitan and non-metropolitan areas – the narrative of ‘left behind towns’ – has also gained traction.

For some in Westminster, it seems to be a new realisation that economic geography and local identity are important to people. This is a belated, but welcome, development. However, both of these concepts tend to crystallise the debate into narrow dichotomies and stereotypes – North vs South; city vs town – and in doing so these generalisations aren’t supported by even a cursory glance at the evidence.

The reality is that the UK’s economic geography is closely related to our centralised governance. For decades, the Treasury has pump-primed London and the South East almost exclusively – and in doing so has created different forms of poverty in all corners of the country, including the capital. Most obviously, in the cities, towns and villages of the South West, the Midlands, Wales and Northern Ireland and the north of England – poverty results from decades of central government underinvestment and poorly functioning regional economies (McCann 2016).⁷ Meanwhile, in London and the South East, the Treasury’s disproportionate investment has created new problems for the people living there – driving up housing costs to create the highest poverty rates in the country (DWP 2019).

But a diverse range of regions, towns and cities have the ability to thrive with the right intervention. Few people would argue that public investment should be used inefficiently, but often the suggestion that policymakers should look beyond a simplistic focus on cities, skills and short-term productivity gains is criticised for advocating ‘jam spreading’. Clearly, strategic economic policy requires policymakers to intervene in places where this is effective – and, clearly, the evidence shows that there are a diverse range of places where that is the case (OECD 2012a; McCann and Ortega-Argiles 2011). This includes towns and villages as well as cities, coastal or inland areas, and areas in the North or South of the country (OECD 2012a). In addition, policymakers must go beyond over-simplistic views that pitch ‘cities versus towns’ as if these were homogenous entities, and take into account variations that occur within metropolitan areas as well as non-metropolitan ones (Centre for Towns 2017).

The discussion of ‘divides’ is also underpinned by clear power relations. In the rhetoric surrounding the UK’s regional inequality, the North is often placed on the wrong side of the ‘North-South divide’. This sustains and reproduces a narrative which frames the North as needing to ‘catch up’ with the South, and therefore inscribes it firmly as ‘the laggard’ – or somehow ‘behind’ the South – in both the political discourse and the national imagination (Berry and Giovannini 2018, Giovannini and Rose forthcoming 2020).

⁷ Scotland’s economy functions differently again – see McCann 2016.

Every country inevitably has some degree of ‘unevenness’ in its economic development. On the surface, our neighbouring countries appear to show similar patterns: Germany has an East-West divide; France is dominated by Paris’ city region; Italy has another North-South divide (albeit inverse to that of the UK) (Ulled et al 2019). The metropolitan-rural divide is notably absent in economic performance – in neighbouring similar countries, as in the UK, intermediate areas often outpace cities, while many different types of places are being ‘left behind’ in their own way (ibid, OECD 2012a, Dijkstra et al 2015).

Our neighbouring countries are also divided by the ‘geography of discontent’ (McCann 2019, Dijkstra et al 2018). Uneven economic development at the regional level leads to very different lived experiences between and within regions. Unemployment, poor job quality, low pay, cuts to services and other impacts have important political and social consequences, especially when they clearly hit some communities and places more severely than others. In turn, the response from these communities can become entwined with the social capital and identity of different places and the people who live in them (Jennings and Stoker 2017).

In some ways, the UK is actually *less* divided than other developed countries: in overall wellbeing, and several wellbeing indicators – such as the homicide rate and life satisfaction – there is less regional inequality in the UK (OECD 2018a).

But in the following section we highlight some of the severe regional divides in the UK – productivity, income, unemployment, health, and politics. In many of these important measures, we find the UK is consistently more divided than any comparable country.

1.1. PRODUCTIVITY

Productivity is an important starting point for assessing economic performance. It measures how efficiently economic value is created, and it is a necessary factor in rising living standards (McCann 2019). Productivity increases are not sufficient to improve living standards however – it is a mistake to prioritise productivity (or economic growth) in isolation and other measures of progress must be prioritised alongside it (Stiglitz et al 2009).

Our analysis finds that, in terms of productivity, the UK is the most regionally unequal country of its size and level of development (of countries with available data – see annex). Building on the approach of McCann (2019) we assessed regional inequality using several measures.⁸ Our analysis is presented in figure 1.1 which shows, clearly, that whichever measure is

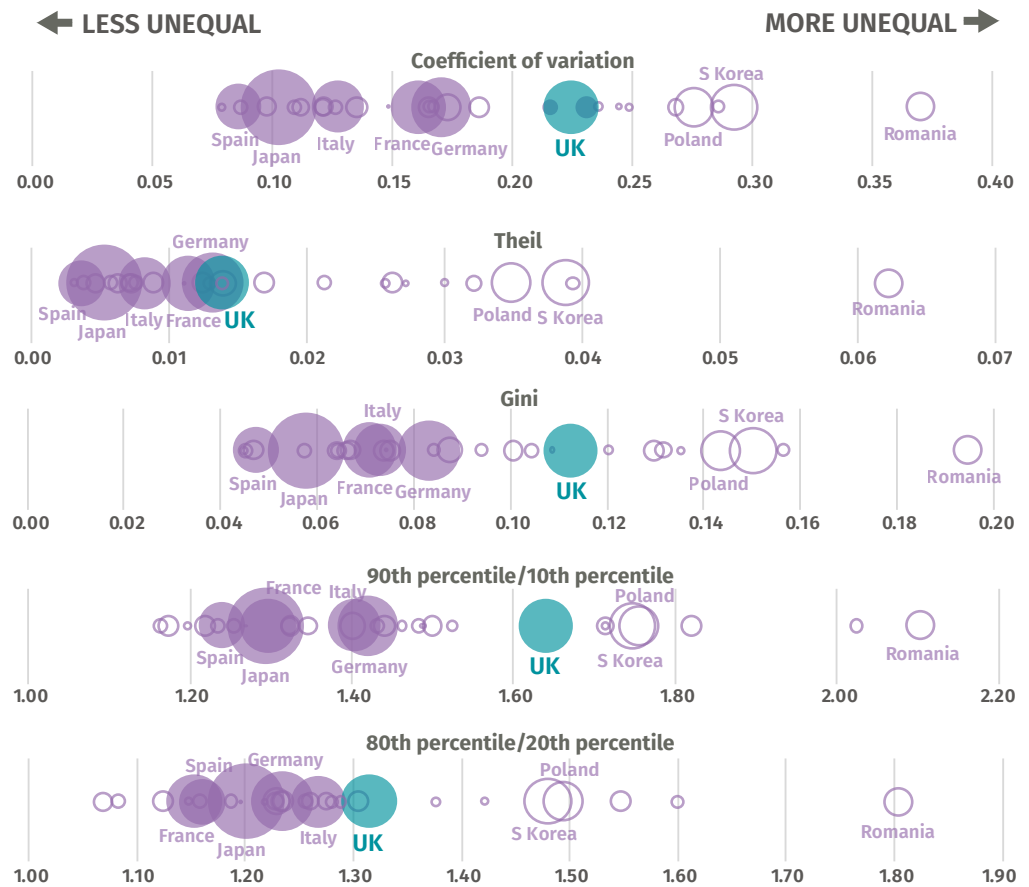
used to compare regional inequality, the UK is more unequal than all similar countries. The only countries which are more regionally unequal are very different in other ways: they are in eastern Europe (Poland, Romania, Bulgaria, Latvia, Estonia and Lithuania), far smaller (Ireland, Greece and many of the eastern European countries) or have a dominant industrial region (South Korea). The UK has remained at approximately this level of regional inequality for the last decade.

The North is home to some of the UK’s more productive areas outside of London, such as Cheshire East, and Cheshire West and Chester. But it is also home to some of the least productive, such as Blackpool; Blackburn with Darwen; and Barnsley, Doncaster and Rotherham. The least productive areas of the UK are however in Wales and Northern Ireland.

8 There are inevitably methodological challenges in comparing regions and countries. See annex for methodology, and a discussion of regions and measures.

FIGURE 1.1: THE UK IS THE MOST REGIONALLY UNEQUAL COMPARABLE COUNTRY IN TERMS OF PRODUCTIVITY

Indices of regional inequality in productivity (GVA per worker – five-year average) in OECD nations (bubble area = country population)



Note: TL3 regions, all countries with available data.
Source: Authors’ analysis of OECD 2019a

1.2. DISPOSABLE INCOME

Regional inequalities in productivity are, to a large extent, also reflected in the inequalities in household income and wealth. The relationship between the productivity, income and wealth of regions is not direct or consistent – many of the poorest places in the UK are the most productive – notably London (DWP 2019). However, disposable income is contingent on productivity growth and is an important factor in determining living standards and poverty (McCann 2019).

Our analysis of regional inequality in disposable income also finds the UK is the most unequal country of its size and level of development – and amongst the most unequal overall (of countries with available data). As figure 1.2 shows, across all measures of regional inequality the UK is second only to Israel – a

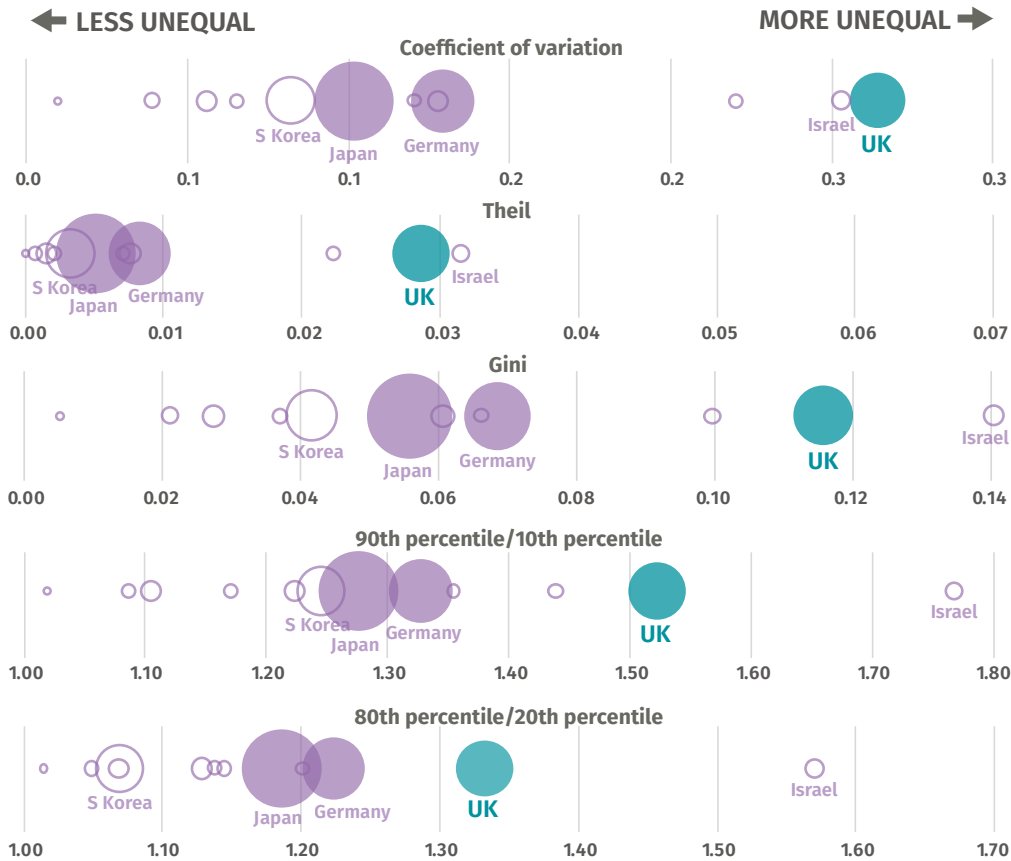
country with the same population as London. The UK is home to areas which have high income by this measure, such as Camden & City of London; Westminster; Kensington and Chelsea & Hammersmith and Fulham. And yet, it is also home to some of the areas with low income by this measure, such as Leicester and Nottingham. But crucially the UK’s relatively unequal position holds even at larger geographical scales – only far less developed countries are more regionally unequal (McCann 2019). Our analysis indicates this inequality has got worse in the UK.

Again, some parts of the North do score highly by this measure – Cheshire East, and Cheshire West and Chester for example. But others are far lower down and amongst the areas with least disposable income per capita in the country – amongst them Blackburn with Darwen, Hull and Blackpool.⁹

9 As well as inequalities in income, the UK has substantial inequalities in the distribution of wealth – 36.1 per cent of GB wealth is in London and the South East alone. Average household wealth is higher in all of the southern regions than the North, and more than twice as high in the South East compared to the North East – see Raikes et al 2018.

FIGURE 1.2: THE UK HAS THE HIGHEST REGIONAL INEQUALITY IN DISPOSABLE INCOME OF ANY COMPARABLE COUNTRY

Indices of regional inequality in disposable household income per capita (five-year average) in OECD nations (bubble area = country population)



Note: TL3 regions, all countries with available data.

Source: Authors’ analysis of OECD 2019b

1.3. EMPLOYMENT AND UNEMPLOYMENT

Creating paid work remains an important objective for economic policy. Job creation and employment statistics need to be treated with caution: the quality of work being created has deteriorated, and there remain problems with under-employment and ‘zero-hours’ contracts to such an extent that most people living in poverty are actually in working households (DWP 2019). Unpaid work is also a major contributor to the economy – estimated to be £1.2 trillion in 2016 – and should not be overlooked (ONS 2018b). Nonetheless, unless places create well-paid and high-quality jobs then there is little hope for increases in living standards among the majority of the population, who are either in work or dependent on those who are.

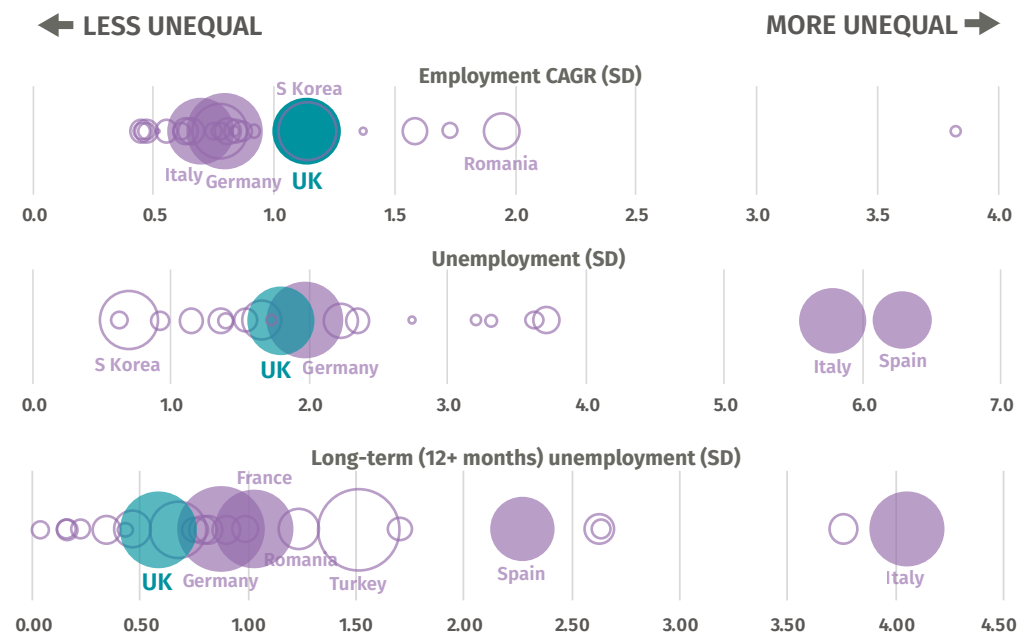
Job creation in the UK has been overwhelmingly concentrated in the capital. London and the South East – home to just a quarter of the UK’s population – accounts for almost a third (29.7 per cent) of the

country’s net increase in jobs since 2010, but it is also where a disproportionate number of ‘gig economy’ jobs are located (ONS 2019d, Lapanjuuri et al 2018). As figure 1.3 shows, the regional concentration of job creation is much more unequal than in other comparable countries. However, unemployment rates don’t show a high degree of inequality compared to other OECD countries, nor is there high inequality in **long-term** unemployment compared to other EU countries (Eurostat 2019a).

The North presents a mixed picture in terms of job creation and unemployment. Parts of the North create large numbers of jobs – Greater Manchester has 161,000 more jobs than it did in 2010; while West Yorkshire, Sheffield City Region and Liverpool City Region each have 60-80,000 more jobs too (ONS 2019e). Long-term unemployment rates also vary within the North – from 2.5 per cent in Merseyside (highest in the country), to 1.0 per cent in Greater Manchester (Eurostat 2019a).

FIGURE 1.3: THE UK IS MORE REGIONALLY UNEQUAL IN JOB CREATION, BUT NOT IN UNEMPLOYMENT RATES

Indices of regional inequality in employment change (CAGR) and unemployment rates (five-year CAGR/average) (15-64) (bubble area = country population)



Note: TL3 and NUTS3 regions, all countries with available data.

Source: Author’s analysis of OECD 2019c, 2019d and Eurostat 2019a

1.4. HEALTH

Health is a fundamentally important outcome for policymaking and is often closely related to the economy. Economic and social conditions have a profound impact on health throughout our lives, but the relationship between health and a fair, productive economy isn't one-way – recent research shows that health is an essential input to economic prosperity, for individuals, businesses and places (Marmot 2015, NHS 2018). Mortality rates are a common way of comparing health inequalities between countries (Parrish 2010).¹⁰

The UK's regional inequality in age-adjusted mortality rate is among the most severe in the developed world. As a country, we do have relatively low mortality rates. But, as figure 1.4 shows, this masks very high mortality rates in some areas

(many of which are in the North), and very low rates in the richest parts of London and the South East. Of the countries for which data is available, Belgium is the only developed country to have a higher level of regional inequality in this measure,¹¹ and the only developed countries to have more severe regional inequality have regions where indigenous people, who tend to suffer poorer health, are concentrated – in Canada and New Zealand (UN IASG 2014).

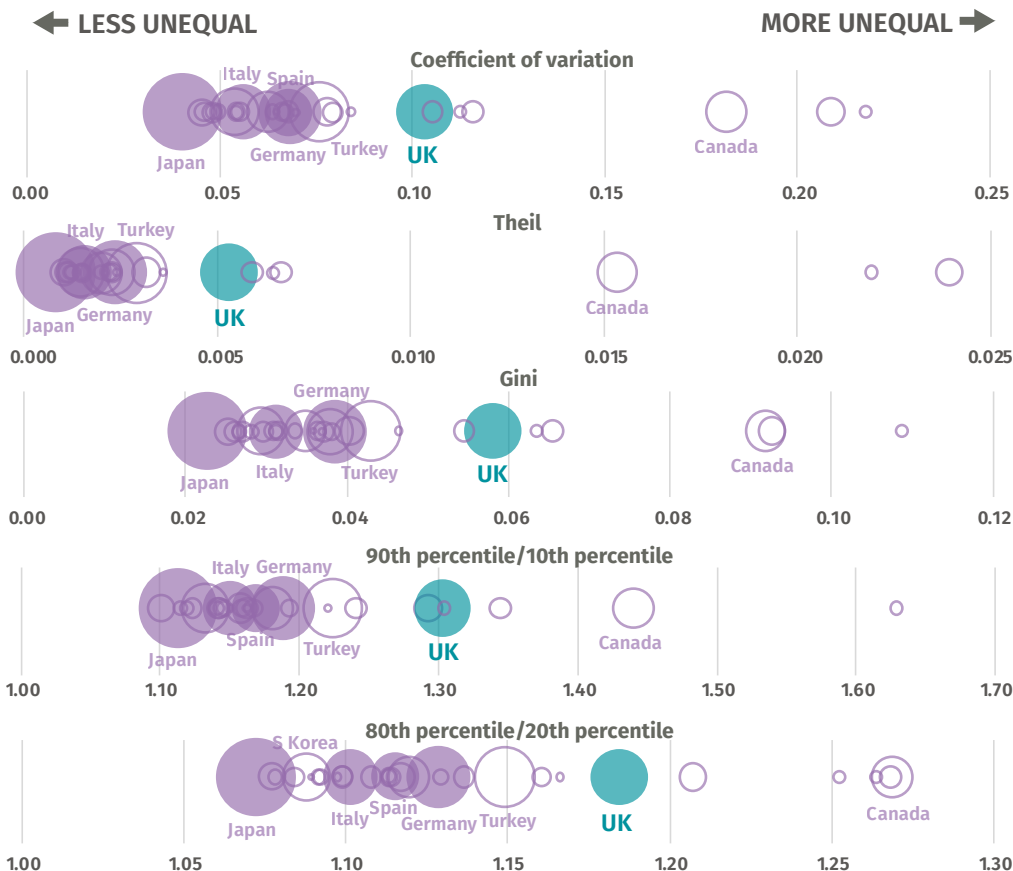
The North has some of the worst mortality rates in the country. Blackpool, Manchester, Hull, Liverpool and Blackburn with Darwen have mortality rates similar to parts of Poland and Turkey, as well as eastern Germany and the remote regions of Canada. North Yorkshire and East Cumbria however have relatively low mortality rates.

10 We also analysed life expectancy data, but because this is available only across the EU have used the OECD-wide mortality ratios. Nonetheless our analysis found a similar pattern, with the UK among the most regionally unequal in the developed world.

11 Belgium's regional health inequality is likely to be overstated, see Renard et al (2019)

FIGURE 1.4: THE UK IS ONE OF THE MOST REGIONALLY UNEQUAL COUNTRIES IN TERMS OF AGE-ADJUSTED MORTALITY

Indices of regional inequality in health (age-adjusted mortality rates, five-year average) (bubble area = country population)



Note: TL3 regions, all countries with available data.

Source: Author's analysis of OECD 2019e

1.5. POLITICS

Across the European Union the ‘geography of discontent’ has emerged as a major source of political division (Dijkstra et al 2018). This has been aptly called the ‘revenge of places that don’t matter’, whereby places that feel ‘politically abandoned’ tend to express their discontent through opposition to the EU or international migration (Rodríguez-Pose 2017, Dijkstra et al 2018, Hillje 2018). Across Europe, economic and industrial decline have been the key drivers of the anti-EU vote (Dijkstra et al 2018). Perhaps surprisingly, it is “often the relatively well-off, those in well-paid jobs or with pensions that heeded the call of populism” – it is a revenge of the ‘**places** that don’t matter’, not the ‘**people** that don’t matter” (emphasis added, Rodríguez-Pose 2017).

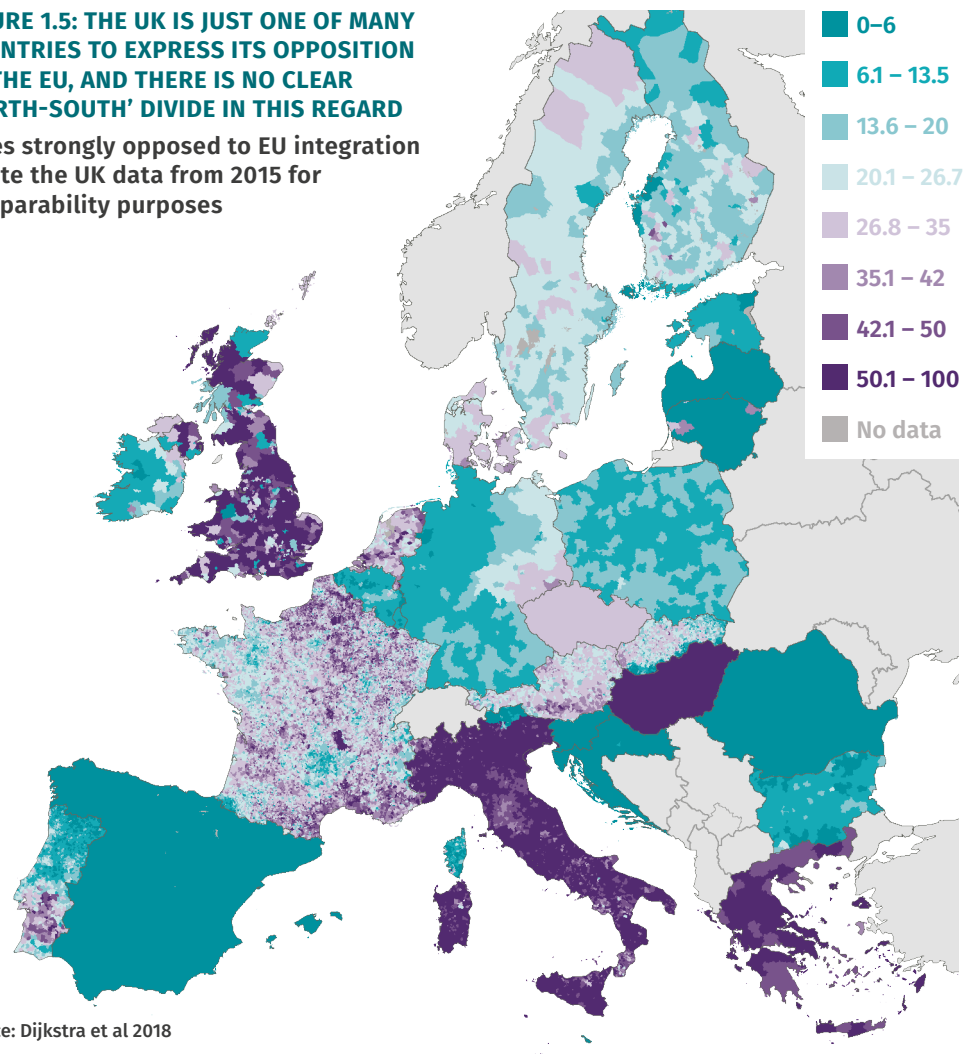
The UK is clearly far from alone in experiencing this division, but is unique in its response. Over the longer term, there has been a high share of votes for parties strongly opposed to the EU in many similar countries. But the UK is of course distinctive in how

its government acted – ie by holding a referendum – and in the fact that the major political parties have responded to the result of that referendum, effectively mainstreaming the geography of discontent, as figure 1.5 shows. In terms of party politics, there is a commonly-held view that so-called ‘left-behind’ areas are shifting from Labour to Conservative – this has some truth with regard to older, white, working class constituencies; but Labour retain support in disadvantaged areas with high levels of insecure employment (Furlong 2019).

For some, the North is synonymous with ‘voted leave’, but this is a mistaken view. The majority of people in northern cities voted to remain, but many towns on the edge of city regions in the North – alongside rural and coastal towns across the country, southern shires and most of Wales – voted to leave (Berry 2019). Any map of the Brexit referendum, shows how widespread the vote to leave the EU was. And, in common with other countries, we see that this is actually prevalent in wealthy areas as well as poorer ones.

FIGURE 1.5: THE UK IS JUST ONE OF MANY COUNTRIES TO EXPRESS ITS OPPOSITION TO THE EU, AND THERE IS NO CLEAR ‘NORTH-SOUTH’ DIVIDE IN THIS REGARD

Votes strongly opposed to EU integration – note the UK data from 2015 for comparability purposes



Source: Dijkstra et al 2018

2. CONNECTED

The regional divides we experience are just one aspect of our economy. They are important but they also present a very ‘static’ analysis – this perspective doesn’t describe how people, goods, services and finance flow between regions within the UK and across the world.

These flows shape regional economies: major cities in effect ‘trade’ business services and goods with companies in other areas – Greater Manchester exports several billion pounds worth of services to Lancashire every year, for example (Thissen et al 2013). Large manufacturers have long supply chains that extend across the country, the EU – and indeed ‘global value chains’ that extend across the world (IJtsma et al 2018).

This dynamic is incredibly important: if business growth in one area rises or falls then this impacts on other areas – sometimes, via supply chains and investment decisions, a considerable distance away. The pattern of job creation and productivity described in section 1 arguably wouldn’t be such a problem if people were willing and able to access high-wage jobs from outside, by moving or commuting to the area.

The UK should be particularly concerned about the connections its regions make within the country and with other countries. The evidence indicates that UK regions are ‘decoupling, dislocating and disconnecting’ from one-another (McCann 2016). There are indications that London isn’t acting as an ‘engine’ for the whole UK economy: London and the South East (as a single region) is highly productive and internally well connected, but in the rest of the UK regions are lagging, with Scotland appearing to work differently again (ibid). There is also evidence that the UK is in a sub-optimal position within global value chains, and vulnerable to being ‘cut out’ – especially in the current climate (Los and Chen 2016).

Likewise, at a smaller geographical scale, there is some concern that city cores are benefitting from globalisation but satellite towns are not. In one sense this could be seen as an issue of city region boundaries – towns are often part of city regions’ functional economic areas, and some investment is going into the city centres. But it is also a question of flows between places – about whether the gains that result from high productivity flow, via commuting and supply chains, from either urban cores, or indeed more peripheral advanced manufacturing sites, into areas that have less productive economies.

Now is a particularly important time to bring cities, towns and regions together. As shown in section 1, there are both false dichotomies and real divides that need to be overcome. There has been occasional speculation about the prospect of London becoming independent from the UK (Mance 2017). To his credit the mayor of London Sadiq Khan has emphasised the interdependence London has with the rest of the UK, setting out a ‘declaration of interdependence’ and stating: “We grow together and we succeed together. Put simply, we need each other” (Sadiq Khan in GLA 2019). There is indeed much truth to this sentiment, but it requires Londoners to acknowledge they are currently overwhelmingly favoured in transport spending – and for northerners, and all those living outside of London, to acknowledge the capital’s severe levels of poverty (Raikes 2019).

Understanding interdependence is also more important than ever due to accelerating climate change. Some regional economies contribute more than others to the problems – especially those that retain an economic base in heavy industry. But some places are also better able to develop solutions to tackle climate change – many of which are in the North. Moreover, the regional impact of climate change will vary considerably. The lack of devolved power in the UK – and the lack of a joined-up approach between regions – could be holding places back from modernisation, innovation and adaptation in response to climate change.

This section sets out how global value chains, people and businesses interact across the UK, and also discusses the potential regional impact of the global climate crisis.

2.1. GLOBAL VALUE CHAINS

Global value chains (GVCs) describe the way businesses add value to production processes across regions, countries and continents. They describe how a finished product that is sold to a consumer is often the result of its components moving across boundaries several times (IJtsma et al 2018). As the world has become more interconnected, these GVCs have become more complex. The ability of a region to ‘add value’ to the components it imports is therefore an important measure of its interdependence in the world’s economy and its resilience to long-term trends, such as off-shoring, or short-term shocks – such as Brexit (ibid).

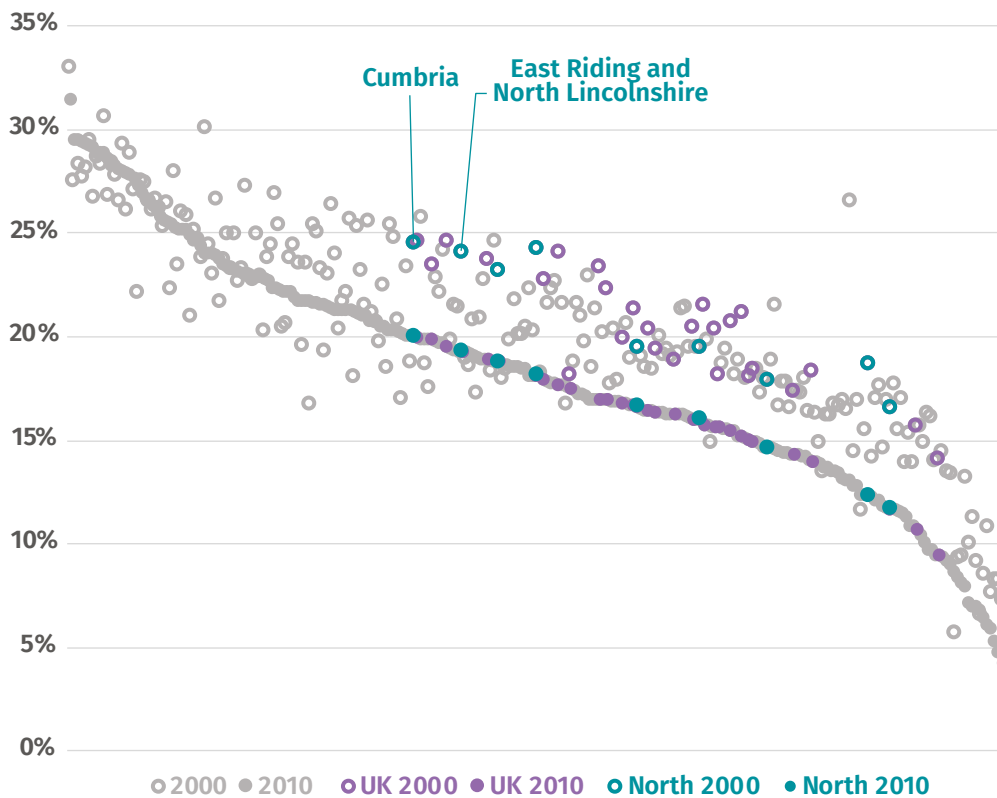
In general, UK regions are less interdependent with GVCs than regions in other EU countries. As figure 2.1 shows, the share of regional GDP that is attributed to GVCs is relatively low in most UK regions. This is especially true of metropolitan areas – in all parts of the country – while places such as Cumbria; Gloucestershire, Wiltshire and North Somerset; and Leicestershire, Rutland and Northamptonshire are

relatively more integrated (Los and Chen 2016). However, unlike regions in other countries, all UK regions are becoming less integrated by this measure. This reflects the fact that UK policy has concentrated on developing a services economy, unlike in other countries where national and regional governments have modernised and diversified their industrial base (Raikes 2019). Indeed, many of the places which voted strongly to leave the EU are, because of their position within these global value chains, more vulnerable to Brexit (Chen et al 2017). In contrast, German areas such as Stuttgart, Oberpfalz and Mittelfranken are particularly integrated in GVCs (Los and Chen 2016).

Some of the UK’s more globally integrated areas are in the North. In Cumbria, GVCs account for the highest proportion of GDP in the country; East Riding and North Lincolnshire, Lancashire and Cheshire are also relatively interdependent. Meanwhile, the service-oriented metropolitan areas like Merseyside and Greater Manchester are among the least integrated (ibid).

FIGURE 2.1: SEVERAL UK REGIONS ARE RELATIVELY INTEGRATED IN GLOBAL VALUE CHAINS – ESPECIALLY THOSE IN THE NORTH

Share of regional GVC value added in regional GDP



Source: Los and Chen 2016

2.2. BUSINESS CYCLES

Economic cycles are a major way in which regional and national economies interact with one-another. The 2007-08 financial crisis is a prime example of a global crisis – it started in specific industries in financial centres in the US and UK, but spread to envelop the whole world to a greater or lesser degree. But there were very different regional impacts within the UK: some regions – such as London – were initially hit hard but rebounded quickly; other regions have yet to recover and may be permanently damaged (Sensier and Artis 2016, Martin and Sunley 2014).

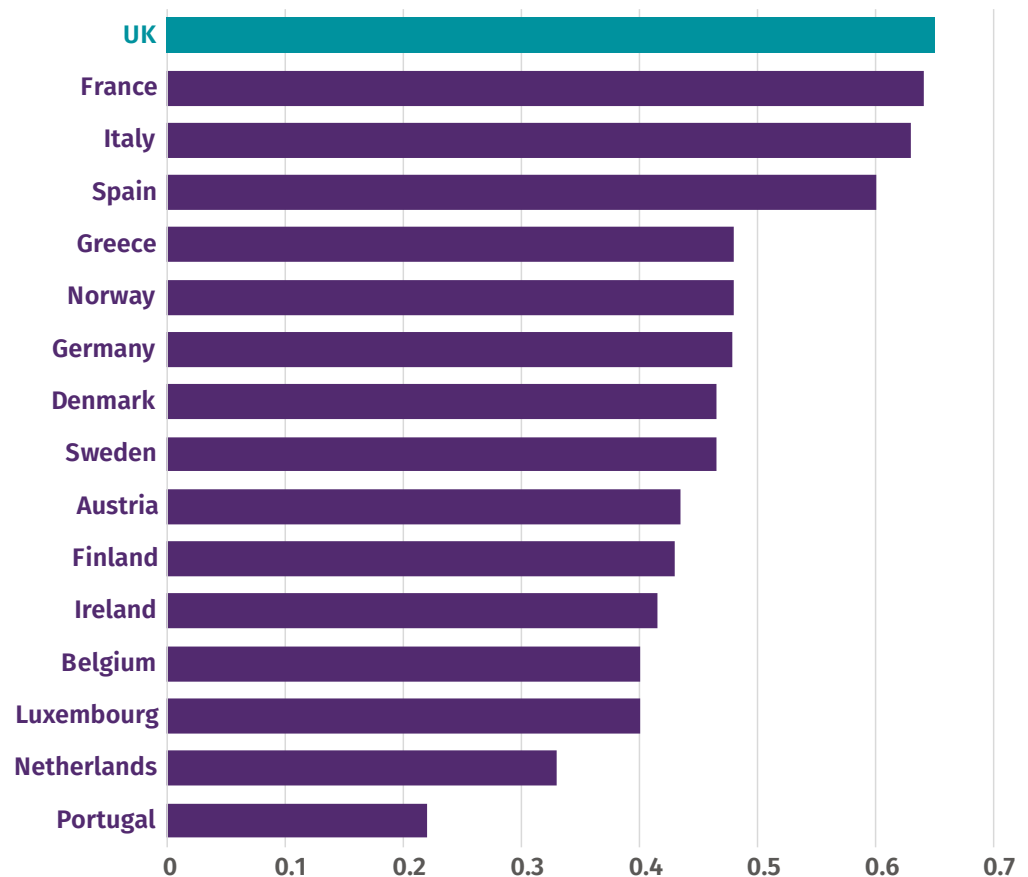
Compared to other countries, regional business cycles in the UK are relatively synchronised with one-another – as figure 2.2 shows (Gómez-Loscos

et al 2017). This is perhaps a result of our political centralisation – and therefore lack of regionally differentiated policies – or the fact that our borders are less porous than other EU countries, where cross-border regional economies are better able to develop (Ulled et al 2019).

The North’s interdependence with other parts of the UK is particularly prominent with regard to business cycles. Senier and Artis (2016) analyse the interaction between these cycles within the UK and find that the North East, North West, West Midlands, South East, Wales and Scotland – a large swathe of the country – are relatively synchronised, but that Yorkshire and the Humber is not. In fact, the closest concordance index is between the South West and the North West (ibid).

FIGURE 2.2: THE UK HAS THE HIGHEST BUSINESS SYNCHRONISATION AMONGST EUROPEAN COUNTRIES

European Regional Business synchronization Index, (0=low regional synchronization)



Source: Gómez-Loscos et al 2017

2.3. MIGRATION

Migration is important for all of national and local economies. Migration can be split into two groups – internal migration (movements within the country); and international migration (movements between countries).

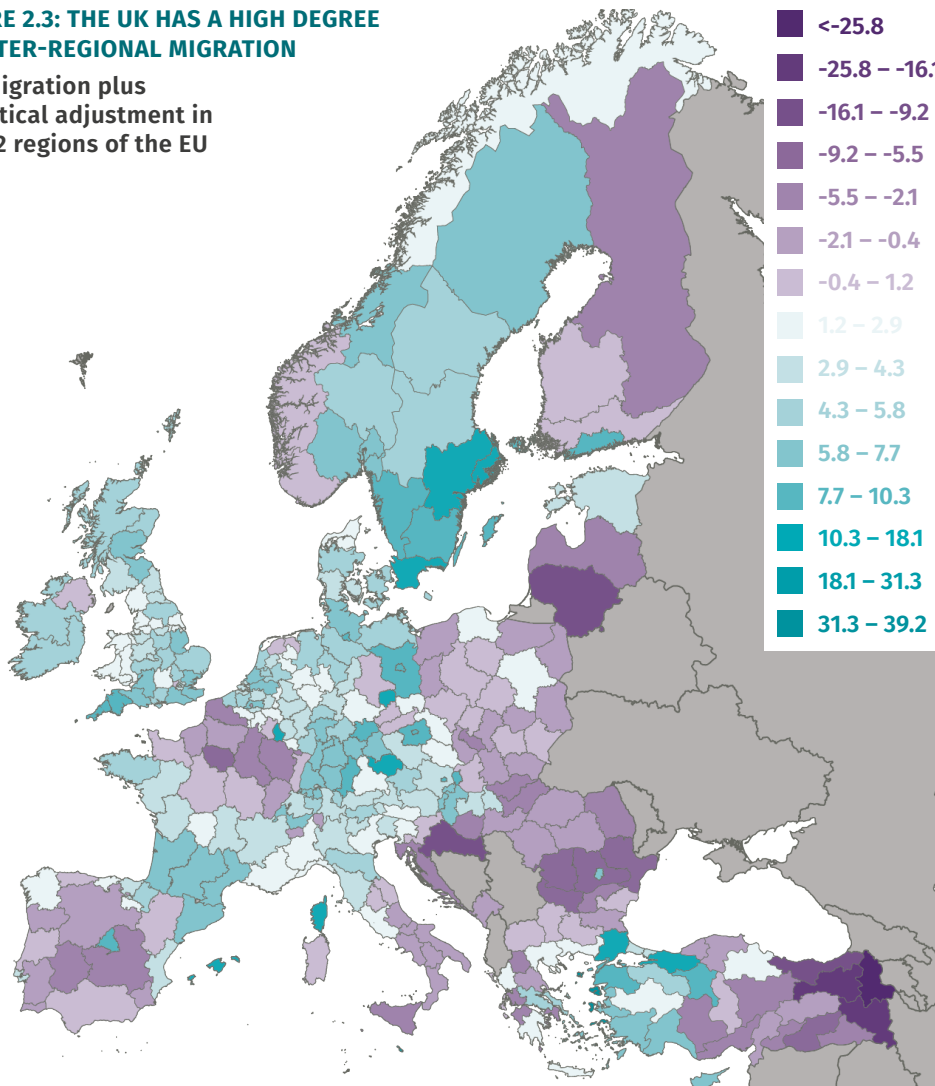
The UK has relatively high level of **internal** migration and large regional differences in the extent of **international** migration. As figure 2.3 shows, many UK regions have rates of net migration – internal and international – that are similar to Germany and the Netherlands and, perhaps surprisingly, this is higher in more rural areas such as Cornwall and Isles of Scilly, Devon and Lincolnshire (Eurostat 2019b). International migration is in line with similar sized EU countries,

but the regional variation in the UK is far higher due to London – 37.4 per cent of London is foreign-born; compared to Germany’s highest of 20.7 per cent (Bremen), and France’s highest of 20.9 per cent (Île de France) (OECD 2019f).

The North’s cities attract a large proportion of both internal and international migration. In 2017/18, 53,000 people moved from within the UK into the North East, 138,000 people moved into the North West and 126,000 people moved into Yorkshire and the Humber (ONS 2019a). International moves were far lower, with 16,000 into the North East, 53,000 into the North West and 40,000 into Yorkshire and the Humber (ibid). Most people moved into the city regions, although there are also significant flows out of these areas.

FIGURE 2.3: THE UK HAS A HIGH DEGREE OF INTER-REGIONAL MIGRATION

Net migration plus statistical adjustment in NUTS2 regions of the EU



Source: Eurostat 2019b

2.4. TRANSPORT

A country's connectivity is highly dependent on its transport network. Commuting is often the focus of policymakers, but people use transport for many reasons not related to paid work. Transport networks can shape or transform whole economies over time – creating paid work, raising productivity and even changing the industrial composition of places (Laird and Mackie 2010). Freight movements are often overlooked but increasingly important – global freight has increased exponentially in recent decades, and many people, businesses – and local economies – rely on the proper functioning of freight networks (Rodrigue and Notteboom 2017).

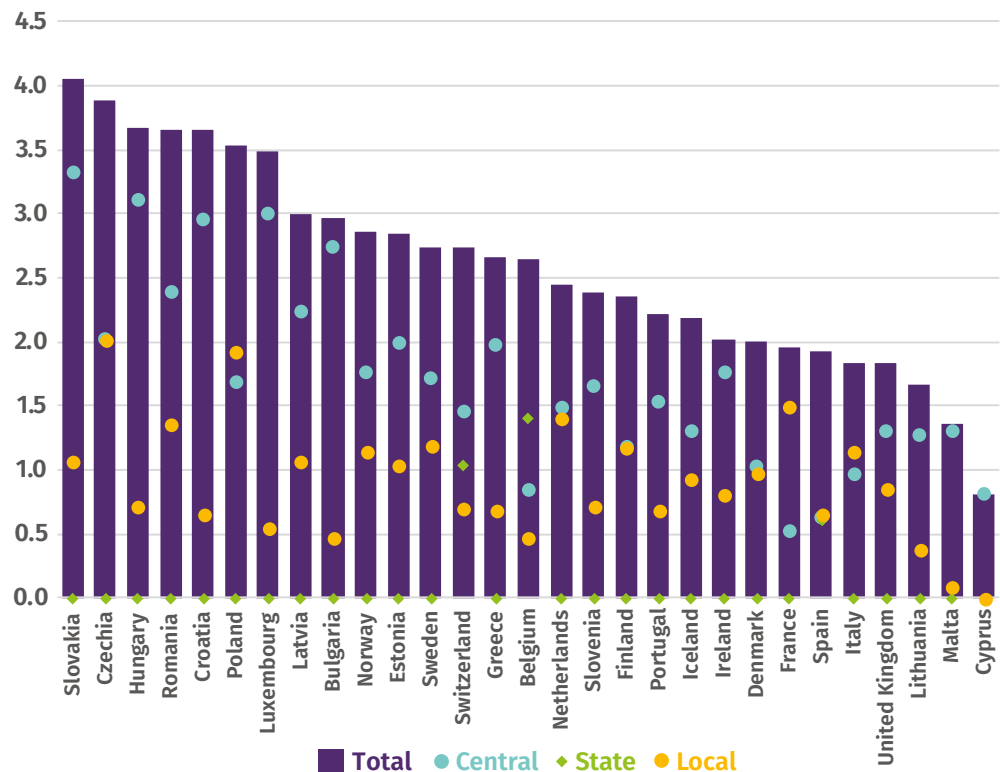
But the UK underinvests in transport – largely due to the centralisation of its decision-making. As figure 2.4 shows, all other major EU countries spend proportionally more on transport – often due to the decisions of regional and local government. The UK only invests 1.8 per cent of GDP on transport, compared to the EU average of 2.1 per cent (Eurostat 2019c).¹² This is largely due to underspend at the sub-national level – UK central government transport spending is quite low, but local and regional spending is far lower than comparable countries (ibid).

Centralisation has demonstrably resulted in underinvestment in the North's transport network. Centralised government means centralised politics, and central government's political decisions overlook the North in favour of London (Raikes 2019). This is made easier by the political dominance of London, differential capacity between London and the North, and the narrow value for money assessments that inform these decisions (ibid). Previous IPPR North research showed that in the past 10 years the North has received only £305 per capita in transport spending, while London has received 2.4 times as much, at £739 per capita (ibid). Planned spending is also lower in the North at £1,247 per capita compared to £3,636 per capita in London (ibid). It doesn't follow that the government should invest less in London – rather we argue there is a strong economic case to invest in other regions too, and devolve powers and funding to all English regions so that they can make such decisions themselves – especially in the North where Transport for the North (TfN) and sub-regional transport bodies (such as TfGM, Merseytravel and NECA) are in strong positions to do so (ibid).

12 Annual average, 2007–17.

FIGURE 2.4: THE UK UNDERSPENDS ON TRANSPORT COMPARED TO MANY COUNTRIES, AND THIS SPENDING IS HIGHLY CENTRALISED

Transport spending as a per cent of GDP, annual average 2007–17



Source: Eurostat 2019c

2.5. CLIMATE CHANGE

Climate change will have a wide-ranging impact on human life across the world and acute localised effects on particular places. Extreme events such as storm surges and river flooding are expected to impact on physical structures (such as transport infrastructure or power plants) and will have a social and cultural impact too; changes to soil characteristics and erosion, or forest fires, are also likely; and particular industries, such as agriculture or tourism, will be affected (ESPON 2011). Local economic development can be part of the solution – through adaptation or by developing renewable industries (ibid).

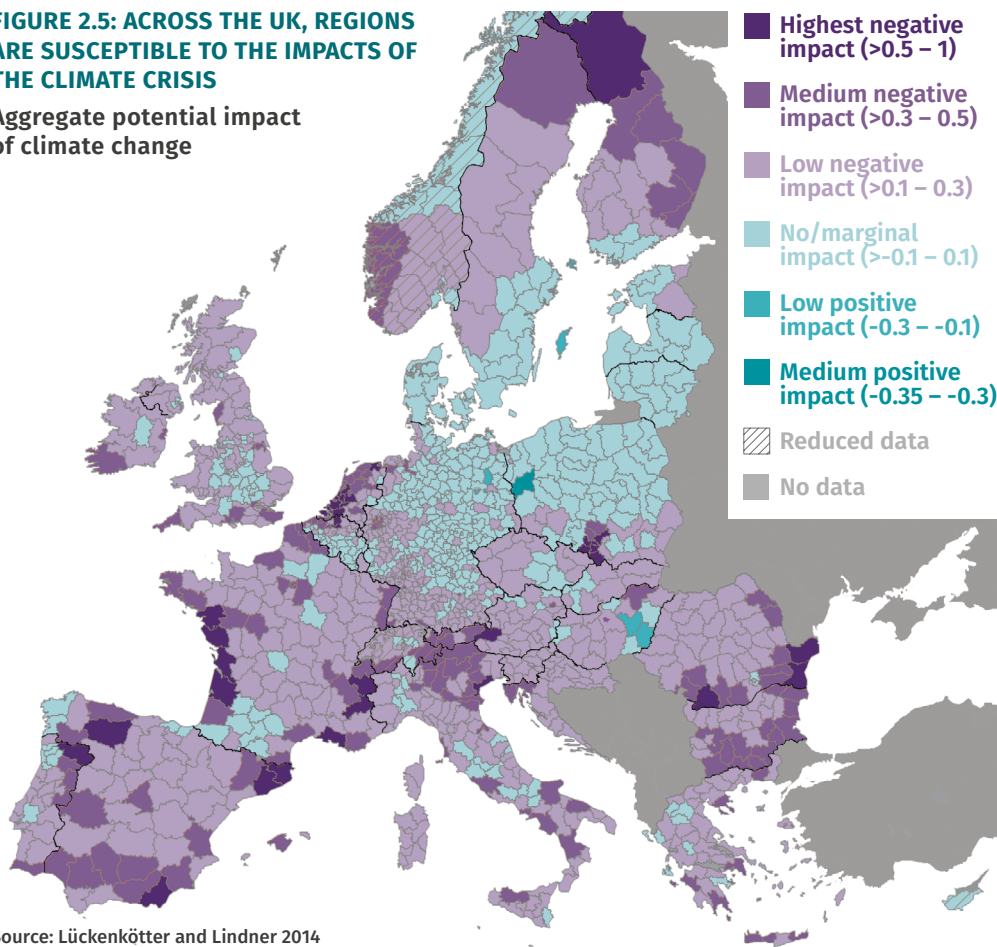
Figure 2.5 presents estimates of the aggregate impact of climate change based on its potential environmental, physical, social, economic and cultural effects on regions in the EU. Temperature increases for the UK may be relatively small but precipitation is likely to increase. And the UK is severely affected in places – especially in coastal areas – although accounting for the UK’s capacity to adapt does improve this situation (ibid).

Some parts of the North are extremely vulnerable to the effects of climate change, but the North also creates solutions. As figure 2.5 shows, some of the UK’s most vulnerable areas are in the North – the Cumbrian coast and areas around the Humber estuary are expected to experience some quite severe consequences (Lückerkötter and Lindner 2014). This is because of their vulnerability to the physical and social impacts of climate change. Decarbonisation could also pose a potential threat to the North’s industrial base due to the high proportion of jobs in the most carbon-intensive sectors of the economy, such as steel jobs in Scunthorpe (EJC forthcoming 2019). However, the North also has a thriving renewable energy sector and significant natural assets – producing 32.4 per cent of UK renewable energy¹³ in 2018 – and it has cut emissions by 35.6 per cent over the last decade (BEIS 2019a, 2019b; Hunter 2019). 56 northern authorities have declared a climate emergency and metro mayors (such as Andy Burnham and Ben Houchen) have set out ways to make their economies ‘net zero’ in terms of carbon emissions.

13 In GWh, excluding biomass.

FIGURE 2.5: ACROSS THE UK, REGIONS ARE SUSCEPTIBLE TO THE IMPACTS OF THE CLIMATE CRISIS

Aggregate potential impact of climate change



Source: Lückerkötter and Lindner 2014

3. CENTRALISED

So far this report has shown how the UK has severe regional divides, but is also interdependent with other regions within the country and overseas.

There are many historic reasons why this situation has arisen. One of the main causes is the UK's centralisation of spending and taxation, which this section now discusses.

3.1. CENTRALISED SPENDING

The North experiences the severe downsides of centralised spending. Public spending on economic affairs is £633 per person, compared to £759 per person across the UK and the North received £541 less per person than in London (HM Treasury 2019, ONS 2018a). The South West, East Midlands and West Midlands also have low public investment in this vital area.

Centralised spending decisions have also resulted in a severely unequal regional impact of austerity. As IPPR North research found earlier this year, between 2009/10 and 2017/18 the North has seen a £3.6 billion cut in public spending, while the South East and the South West together saw a £4.7 billion rise (in real terms). London also saw a cut in spending, but by far less, at £256 million (Raikes and Johns 2019).

FIGURE 3.1: SPENDING ON ECONOMIC AFFAIRS IS £541 PER PERSON LESS ON THE NORTH THAN ON LONDON

Spending on economic affairs per person, five-year average to 2018/19 (real terms 2018/19 prices)



Source: HM Treasury 2019

3.2. FISCAL CENTRALISATION

The UK's unequal public investment is closely related to the centralisation of tax, as well as spending, powers. There is a general tendency for larger countries to be more fiscally decentralised – often because they are federal states with distinct sub-national tiers (eg regions, provinces or 'lander') with clearly defined powers and resources. There are some notable exceptions – Denmark and Switzerland are small and highly decentralised, while France is large and quite centralised. But the UK is among the most fiscally centralised countries in the developed world and, as figure 3.1 shows, far more so than similar sized countries, such as France, Italy, Germany or Spain. Again, only countries that are very different to the UK are more centralised.

For example, German states have control over taxes such as inheritance tax and beer tax; while German cities have taxes on gambling and trade (Slack 2016). Even in France, which is relatively centralised compared to most other countries, Paris has control

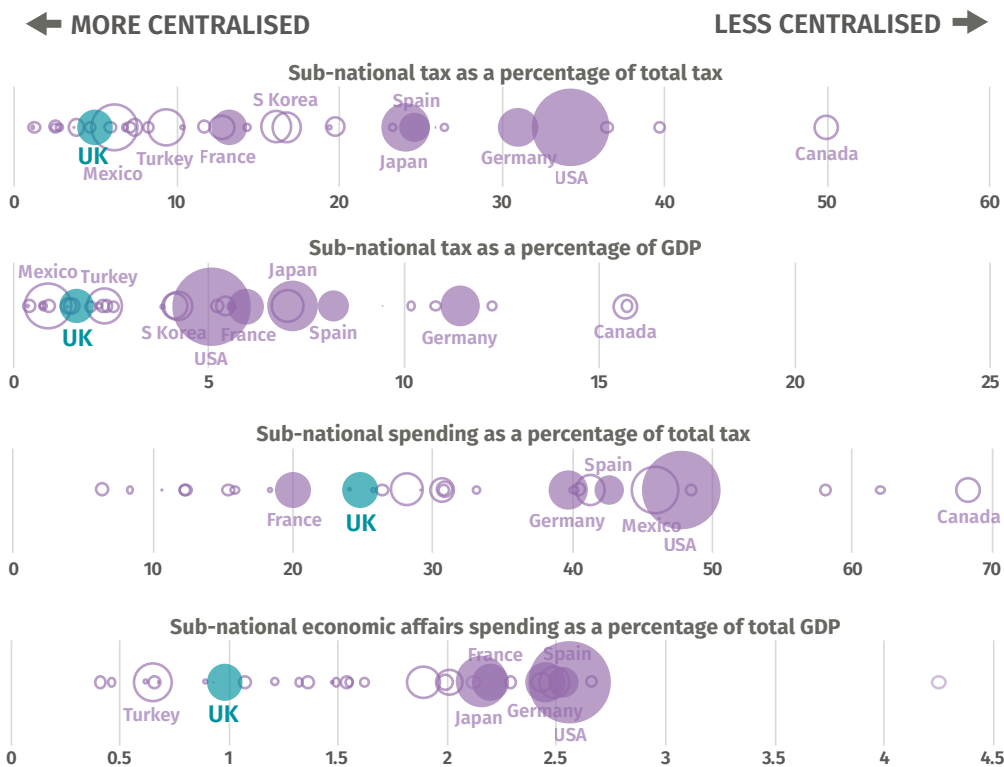
over taxes such as electricity tax and land transfer tax (ibid). Even accounting for the fact that the devolved nations have some control over tax, the UK is about as fiscally decentralised as far smaller countries, such as Hungary and Israel. Only countries such as Luxembourg, Estonia, Ireland, Slovakia and Greece are more fiscally centralised than the UK.

Due to the patchwork nature of devolution in England, these trends are even more acute in the largest nation of the UK. For example, this means that almost all of the tax raised in the North transfers to Westminster. Of the £143 billion tax raised in the North, £136 billion (94.8 per cent) is centralised and only £7 billion (5.0 per cent) stays in the form of council tax (ONS 2019f).¹⁴ Some of this is then used to fund councils' budgets, where there is some discretion over its spending (although this is increasingly marginal due to austerity). The retention of business rates has also been piloted in some areas – however, this is widely regarded as an unsuitable tax for retention (Sandford 2017).

14 Business rate retention is excluded from these calculations as policy is in flux and the level of retention is unclear

FIGURE 3.2: THE UK IS THE MOST FISCALLY CENTRALISED OF COMPARABLE NATIONS

Various measures of fiscal centralisation (bubble area = country population)



Note: Economic affairs spend is for 2016 only due to data availability.

Source: Authors' analysis of OECD 2019g, 2019h, 2019i, 2019j

3.3. UNEQUAL REGIONAL FINANCES AND FISCAL DEVOLUTION

The centralisation of tax and spend in the UK has created unequal regional finances. It is quite common – almost inevitable – for some regions to contribute more tax than others and this is the case in all other countries. This is a natural consequence of economic geography, and if there is a progressive tax system then areas which have more wealthy people or a higher concentration of businesses will tend to contribute more to national finances.

The UK is unusual in that only two regions (London and the South East) are net contributors to public finances. However, this is the consequence of central government's approach to the national economy and the strategy of, in effect, using economic policy to maximise tax income in London and the South East while neglecting the economic development of other regions (Raikes 2019). This has left the North without an economy that generates as much tax revenue as it could.

This pattern of fiscal contribution is often – mistakenly – presented as an obstacle to fiscal decentralisation. Some commentators argue that wealthier regions will embed their advantage if they are able to retain their tax revenue, leaving poorer regions short of essential funding (Sandford 2017). In the case of England, the business rate retention pilots appear to confirm this suspicion, as they have overwhelmingly benefitted London (Amin-Smith et al 2018).

However, fiscal decentralisation and redistribution are perfectly compatible – in fact, they go hand-in-hand. In highly decentralised countries such as Germany, Sweden or Canada, there are large fiscal transfers which equalise spending between regions (Mcgough and Bessis 2015). Indeed, this is already the case within the UK as the Barnett formula distributes funding – revenue and capital – to Wales, Scotland and Northern Ireland based on their population. Any tax changes made by the devolved nations are then incorporated into Barnett calculations. As noted above, business rate retention pilots have also been configured to retain an element of redistribution.

4.

DEVOLVED

As this report has shown, persistent centralised policymaking, particularly in England, holds back the country. It has helped to entrench our regional divides, and means opportunities to integrate and bridge inequalities are missed.

This section restates the case for devolution, before showcasing some of the recent innovations that metro mayors in the North and pan-northern organisations have been able to undertake – showing their transformative potential and calling for more power.

4.1. THE CASE FOR DEVOLUTION AND RECENT DEVELOPMENTS IN ENGLAND

Evidence shows that devolution can enable investment and innovation. It can also offer a better matching of public expenditure and services to local needs, as well as improve accountability of local institutions to citizens. As such, across the developed world devolution is often associated with positive outcomes both in economic and democratic terms (Bartolini et al 2016). There are of course exceptions to this, and the quality of institutions and governance are often key to the achievement of positive outcomes (Pike et al 2012, Ayres et al 2017).

Devolution in the UK is based on an asymmetrical model. This is not unusual, and similar approaches have been adopted in other European countries such as Spain and Italy. However, what is unique about the UK case is the patchwork nature of the process. Over the past two decades, Scotland, Wales and Northern Ireland¹⁵ have enjoyed significant levels of devolution, tailored around the needs of each nation. In that time, however, England has seen only slow and uneven progress.

Devolution in England has evolved in fits and starts – and although many attempts have been made to advance a coherent programme of decentralisation over the past decades (Giovannini 2016, Pike et al 2016), none of these efforts has managed to address in full the ‘English question’ (Paun and Macrory 2019) or address regional inequalities (UK2070 Commission 2019).

The introduction of devolution deals from 2014 is the latest attempt to tackle over-centralisation in England, and has brought in important changes to governance structures. This agenda still remains fragmented: it does not cover all areas across England, and allows considerable variations of power and resources allocated to each ‘devo deal’ as well as a high degree of control from the centre (Giovannini 2016, Tomaney 2016). And yet, the introduction of metro mayors that accompanied ‘devo deals’ has been a significant step forward. The new mayors provide leadership and add accountability to new architectures such as combined authorities. They also exercise a range of ‘soft powers’ to extend their influence beyond their organisations and achieve outcomes beyond their own legal powers and duties (Sandford 2018).

In the North, where devolution deals have developed alongside the Northern Powerhouse agenda, metro mayors have shown a great deal of ambition and clout. Despite the constraints imposed by the top-down nature of the current model of devolution, the mayors have introduced a wide range of transformative initiatives in a very short period of time.

¹⁵ Although it should be noted that Stormont was suspended in 2017 and direct rule has been re-established since then.

4.2. NORTHERN INNOVATIONS: MAYORS

Since the first election in 2017, five metro mayors have taken office across the North and now govern almost half its population. Their powers, funding and the scale of the combined authorities they lead vary considerably. However, despite having been in office only for a limited time, the mayors have brought in significant changes and innovations.

In the **Liverpool City Region** Combined Authority (LCRCA), Steve Rotheram has championed and put in place the 'Households into Work' scheme, which is jointly funded by the LCRCA and the Department for Work and Pensions. This programme pioneers an alternative approach to long-term unemployment by helping 1,300 families affected by generational unemployment into work and training – providing mentoring and support to address a range of complex needs (LCRCA 2019). In addition, under the lead of mayor Rotheram, the LCRCA has launched the largest city region-wide investment fund, setting aside £500 million to invest in projects that pay the real living wage, recognise trade unions, create apprenticeships and use local labour. The LCRCA mayor has also established a Fair Employment Charter as recommended by IPPR North (Johns et al 2019).

In **Greater Manchester**, Andy Burnham, working with the 10 local authority leaders, has introduced 'A Bed Every Night' – a scheme which has helped 1,400 people who had been sleeping rough and supported over a third of them into more sustainable housing solution. This ambitious programme, funded through multi-partnership investment, including from health, is in line with Burnham's commitment to end the need for rough sleeping in Greater Manchester by 2020, seven years ahead of the national government target. Burnham has also introduced a Good Employment Charter, (as has Liverpool City Region), which will encourage and support employers to improve their employment practices and become more productive. GMCA's mayor has also led on innovations concerning transport – for example through the 'Our Pass' scheme, which gives tens of thousands of 16-18 year olds free bus travel and access to culture and leisure opportunities. GMCA is also the first MCA in the UK to propose a bus franchising scheme, which would see GMCA take control of the region's services back from private companies and the implementation of a London-style bus system.

In **Tees Valley**, Ben Houchen has successfully promoted a range of innovations in clean growth. Potential funding has been secured for hydrogen generation. This will allow Tees Valley, which already produces 50 per cent of the UK's hydrogen, to utilise this resource properly and keep manufacturing jobs in the city region while also building on the global drive to cut carbon emissions (TVCA 2019). The mayor also has plans for other green energy projects: the combined authority is bidding to be the UK's first location for a hydrogen passenger rail trial; a Strength in Places Funding bid aims to see Tees Valley develop the UK's 'hydrogen corridor'; and there are plans for a new multi-billion pound 'clean gas project' to develop the first gas-powered energy plant in the world to deploy full-chain carbon capture utilisation and storage (CCUS) technology.

Despite delays in putting its devo deal in motion, the **Sheffield City Region** Combined Authority (SCRCA) has also led the way with innovations. Just a few months after his election, Dan Jarvis achieved a national first as members of Sheffield City Region local enterprise partnership agreed to appoint a trade union representative to the board. This is an important step to ensure the LEP board is representative of the diversity of the Sheffield City Region, and to catalyse inclusive growth that benefits all communities in the area. It also shows the benefits of devolution, underlining the value of genuine social partnership to the local economy. In addition, the Sheffield City Region has secured a partnership with the NHS and government to deliver the 'Working Win' research trial project in the SCR MCA. This is a pioneering programme that is helping to test innovative ways to support people struggling in work or having difficulty finding employment due to low-level health problems. Despite being a pilot, 'Working Win' is already showing positive outputs around access to and progression in employment and has the potential to benefit over 7,000 people in the area. More recently, Mayor Jarvis has appointed a SCRCA active travel commissioner (Dame Sarah Storey, Britain's most successful female Paralympian) – who will be championing an ambitious agenda, linked to the mayor's transport vision for the city region, that aims to improve people's health, cut carbon emissions and reduce congestion across the city region.

In the **North of Tyne** Combined Authority (NTCA), Mayor Jamie Driscoll took office only a few months ago, in May 2019. And yet, since his election, the new mayor has sought to put into practice radical ideas that can benefit the region. A study to explore the feasibility of establishing a People's Bank is currently underway – and, if successful, the bank would be up and running within three years. Such a model is part of a broader community wealth building agenda and aims to support sustainable economic development by retaining banking profits in the North East, ensuring that collective savings are re-injected into the local economy and do not leak out of the region. This approach draws on the so-called 'local multiplier effect' – emphasising the additional economic benefit that would be accrued to the North East from money being spent in the local economy (CLES 2019, Sacks 2017). The bank would only do business with people and organisations in the North East, it would be owned by its customers, it would be run on a one-person-one vote co-operative basis, and it would be legally asset-locked so it cannot be privatised. The bank would have a full range of services – current accounts, mortgage lending and business banking with physical branches and 24-hour automated services. This ambitious project would be the first of its kind in the North, and one of the few pioneered across the UK. Beyond this, the North of Tyne mayor is also driving forward the fight against climate change. His office is working to bring world-class environmental education to every school in the North of Tyne, giving them the opportunity to train one member of staff as a UN accredited climate change teacher (NTCA 2019). There are also plans to set up a citizens' assembly to address action on climate change within the region.

This overview clearly shows the transformative potential that metro mayors have brought in despite the power and financial restrictions imposed on them by the current model of devolution. Metro mayors' success in this sense is linked to their ability to read, understand and address the issues and ambitions of their areas – developing policy initiatives that are place-based and therefore are able to better respond to local needs.

4.3. PAN-NORTHERN COLLABORATION

Beyond their individual achievements, metro mayors and leaders across the North have developed cooperation and partnerships at the pan-northern level.

- The Convention of the North, which met for the second time in September this year, is convened by the northern metro mayors and acts as a forum to set out a joint vision for the North's future. This year, 800 of the North's political, business community and academic leaders, along with young people's groups gathered in Rotherham calling for a seismic shift in funding and powers to 'level up' the North – so that the region can unleash its huge potential.
- Transport for the North (TfN) is another case in point of successful pan-northern collaborations. TfN has set out a strategic transport plan – which aims to rebalance decades of underinvestment and transform the lives of people in the North. In line with this, TfN is also campaigning hard for a 'northern budget'. Importantly, through these initiatives northern civic and business leaders have coalesced and started speaking with one voice, outlining their vision for a prosperous North.
- Bringing together all the LEPs from across the North, the NP11 is playing a key role in revitalising the vision for a Northern Powerhouse that is shaped by, rather than being imposed on, the North – driving economic prosperity, international competitiveness and inclusive growth that can benefit all areas and communities in the region.

5. CONCLUSIONS

The north of England – like the rest of the country and the developed world – is currently beset by deep and severe divisions. Places that have been disregarded by policymakers have started to express their discontent.

But these very divisions are a reaction to our ever-increasing interdependence. This is most apparent with regard to the Brexit vote: the places most interdependent with the world are the places that voted to leave – in turn those places' economies are likely to be most vulnerable to the socio-economic effects of Brexit (Chen et al 2017, Wannicke 2018).

It is too simplistic, and factually incorrect, to regard the UK as isolated and unique in experiencing regional divisions. Neoliberal globalisation has drawn a map of discontent across the developed world. Even in our division we are not alone.

But the UK is unique in the severity of its regional divides and this is in large part due to the over-centralisation of power in Westminster. Centralisation has helped to fuel a level of discontent that has made itself heard over the past three years – and, to those listening, much longer. We are both more regionally unequal and more centralised than any comparable nation. Moreover, we are regionally unequal **because** we are so centralised.

There is growing pressure for real change in the power relations in this country – between rich and poor people, or between companies and their staff – all of which are important to address our many deepening divides.

But the power relations between the Westminster and the regions of England must also change. It is unsustainable that, despite attempts at devolution, a region such as the North – home to 15 million people, larger than most EU countries – still depends on a highly centralised model of devolution, with key decisions being made in or imposed by a government hundreds of miles away. This is especially apparent now: as parliament's time is consumed almost exclusively by Brexit, Westminster's inability to address the causes of this situation has never been clearer.

And some of the signs of hope in the last year have come from the bottom up – as shown by the northern innovations enabled by devolution. Small-scale changes have given opportunity to the long-term unemployed and the young; provided a bed every night for rough sleepers; pioneered new green technologies or financial inclusion. The scale of these interventions clearly pales in comparison to the decisions central government has made. But nonetheless, despite the limitations of the current top-down approach, devolution is allowing mayors to experiment with innovations – bringing in tangible improvements to the lives of those who need it most in their communities. More than that, devolution has a crucial democratic dividend that needs to be further unlocked, as it offers a way for people to be heard when it feels like nobody is listening and to have real power when they feel they have none.

2020 will bring a new decade, and with it new opportunities, as well as new challenges – on top of the old. One of the biggest opportunities this country now has is to return power to the regions, towns and cities of England through substantial devolution – starting in the North.

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ANNEX:

METHODOLOGY FOR ANALYSING REGIONAL INEQUALITY

Comparing regional inequality between countries involves making judgements about several things: the measures of economic performance used; geographical scales/boundaries; and indices of regional inequality.

The misinterpretation of regional economic figures is quite common. Consider the UK, where the country's GDP 'hotspot', London, is grouped into several 'NUTS2' areas – some with a relatively low population (area definitions are discussed below). This makes the GDP *per capita* figures look very high in comparison to other countries, where such places are grouped into areas with higher population, most notably Paris – where one NUTS2 region encompasses the whole of Paris and more, as the Île de France region. In a sense, Paris' geography aligns commuters with GDP more effectively than London's.

As McCann (2019) notes, these misinterpretations have led to some high-profile discussions, notably between the Economist, FullFact, the OECD and the ONS – with well-known commentators, such as Andrew Neil and Jeremy Vine also becoming involved.

Below we describe the judgements we have made and why we believe they are appropriate. Our approach draws in particular on McCann (2019) and Prothero (2018) who both discuss these issues in depth. We also draw on the very helpful discussions we had with the OECD and the ONS. Our judgements, analysis and conclusions however remain our own.

MEASURING ECONOMIC PERFORMANCE

GDP per capita or GVA per worker?

There are several ways to measure economic performance at the sub-national scale (ie regions and sub-regions). GDP per capita is one such measure. This is a standard measure of a region's economic prosperity and level of development (although there is a notable disconnect between GDP per capita, living standards and poverty which has opened up in recent decades – as discussed in the report). Like any economic indicator, it should not be interpreted in isolation.

GDP per capita can be used at the sub-national level but it can be severely misinterpreted by those who are not familiar with regional economics. GDP per capita is a measure of all incomes, profits, rent and wealth in a place, divided by the *population* of that place. At the national level, there are few issues (other than those noted above). But at lower geographical scales the problem of cross-boundary commuters arises – and tends to become more problematic at smaller scales.

The 'cross-boundary commuters problem' arises because of the disconnect between resident and worker populations. For example, as noted above, if GDP per capita is used for a place with low population but high employment, it looks far more 'prosperous' than other areas. This is particularly striking when London is compared to Paris and NUTS2 geographies are used (Prothero 2018). This measure

is clearly also much more sensitive to where boundaries are drawn (discussed in detail below).

GDP per capita is a perfectly defensible measure of regional development if used in context. But we have chosen to use GVA per worker because:

- we want to measure productivity for the economic activity taking place in that area
- GVA per hour worked (an alternative productivity measure) is not available consistently across the OECD countries we want to analyse
- the per capita figures are too sensitive to the judgements made around sub-national boundaries.

This is also in line with the advice from the ONS (Prothero 2018).

Other measures used

Regional disposable income (RDI) per capita is another metric commonly used to measure regional inequality. This is not a measure of either productivity or economic dynamism in any meaningful sense – although it is indirectly related. It includes the effect of tax and benefit policies on people’s incomes, alongside their wages and other sources of income. It does not include investment, profit and wealth. Both of these factors mean that measures of RDI per capita tend to show less regional inequality than productivity or GDP per capita measures.

RDI is based on residency, not workplace. Therefore, sometimes places have high disposable income but low productivity – for example, in wealthy retirement hotspots where local industry is not productive but there are many high-income individuals.

We have also measured regional disposable income per capita alongside productivity. This is because we want to show the net result of regional inequality on people’s incomes – accounting for government policies. Again, this is also in line with the advice from the ONS (Prothero 2018).

In section 1 we also take a number of other measurements of both economic and social performance.

- **Age adjusted mortality rate** – this is internationally recognised as a good indicator of population’s health (Parrish 2010). It is also gathered by the OECD and is available at comparable geographies. Ideally this would be presented alongside other indicators, but these are not available on a comparable basis across the developed world. There have been some challenges comparing life expectancy in Belgium (the only comparable country with health inequality higher than the UK) to other OECD countries – our analysis may therefore overstate the health inequality in Belgium (Renard et al 2019).
- **Unemployment 15–64** – this is gathered by the OECD for comparative purposes.
- **Long-term unemployment (12 months+)** – this is gathered by Eurostat for comparative purposes.
- **Change in employment (compound annual growth rate)** – employment data is gathered by the OECD for comparative purposes, and CAGR is a measure of the rate of change in employment over time.

GEOGRAPHICAL BOUNDARIES AND SCALES

When analysing economies at the sub-national level, the boundaries of the territories used are an important consideration. Every effort is made by the organisations responsible (Eurostat and the OECD) to draw boundaries in a way that enables meaningful comparisons.

The OECD has set an international standard for sub-national geographies:

- TL2 regions – these are the larger regions, and include places such as the North West or London
- TL3 regions – these are much smaller – such as Manchester, or Westminster.

These OECD geographies correspond with Eurostat geographies:

- OECD TL2 regions correspond with Eurostat NUTS1
- OECD TL3 regions align with Eurostat NUTS3.

Eurostat have an additional tier of regions which are larger than TL3/NUTS3 regions, and smaller than TL2/NUTS1 regions – these are ‘NUTS2’ areas such as Greater Manchester, which is larger than Manchester (NUTS3/TL3), but smaller than the North West (NUTS1/TL2).

These units range in size of population and area, but as long as the analysis only uses one category when drawing comparisons, they are generally as comparable as possible. Comparing one country’s inequality in TL3 regions with another’s inequality in TL2 regions is not a like-for-like comparison and should generally be avoided (McCann 2019). However, the ONS recently did regroup some of these geographies to compare the UK with a select number of European comparators (Prothero 2018).

There are other ways of dividing up sub-national areas but each of these is incomplete. The OECD construct areas which, based on their in-depth research, constitute city-region’s functional economies (OECD 2012b). In the UK the Centre for Cities uses a definition which draws on the research of CURDS research to define ‘cities’ – sometimes controversially so (Centre for Cities 2015). The Centre for Towns has also undertaken work to define towns’ geographies in a more meaningful way (Centre for Towns 2017).

The pros and cons of each of these definitions can be (and often are) debated at great length. However, for the purposes of this paper none of these will suffice as they all exclude a large proportion of people and economic activity not in the areas defined – none offer a whole picture of countries’ economic geography that includes all its cities, towns and villages. In addition, there are some countries where there are so few metropolitan areas as to make international comparisons meaningless (McCann 2019).

We have therefore chosen to use OECD TL3 regions because:

- they are internationally recognised and well-established units of geography
- TL2 regions are too large, too few in number, and in the UK they tend to be larger by comparison. In contrast, the UK’s TL3 regions are very close to the OECD median and mean populations
- NUTS2 regions introduce significant comparability problems – particularly between London and Paris – and there are no equivalent geographies outside of the EU
- other area definitions (whether metropolitan areas or towns) are incomplete
- alongside our choice of GVA per worker (above), and the measures used (below) this makes for meaningful and robust comparisons.

MEASURING REGIONAL INEQUALITY

In figures 1.1, 1.2 and 1.4 we use several commonly used measures of regional inequality. We chose each measure because as an individual indicator they tend to control for extreme outliers – for this reason we have avoided calculations such as top/bottom, or top/average. We chose to use a range of indicators to present a comprehensive picture, and again to account for the effect of extreme outliers.

In combination with the judgements we made about measures of economic performance and geographical boundaries and scales, these offer what we consider to be the best measures of regional inequality. These are also often used by academics, the OECD and Eurostat to measure regional inequality (OECD 2018b; McCann 2019).

The 80th/20th percentile and 90th/10th percentile measures are relatively self-explanatory, but below we present the formulas for the other measures of inequality used.

Coefficient of variation. This is defined as the standard deviation divided by the mean:

$$CV = \frac{SD}{\bar{X}}$$

Theil T entropy index. The Theil index ranges between zero and ∞ , with zero representing an equal distribution and higher values representing a higher level of inequality:

$$Theil\ T = \frac{1}{N} \sum_{i=1}^N \frac{y_i}{\bar{y}} \ln \left(\frac{y_i}{\bar{y}} \right)$$

Gini index. The Gini index ranges between zero and one, where zero is perfect equality and one is perfect inequality. It is calculated as follows:

$$GINI = \frac{2}{N-1} \sum_{i=1}^{N-1} |F_i - Q_i|$$

OTHER NOTES ON THE ANALYSIS

Timescales

In all cases we have taken a five-year average. This is to order to account for noise and annual fluctuations in the data, and to make a fair assessment of regional productivity. In some cases, only three or four years of data is available, but this is unlikely to have a significant bearing on the final results.

Inclusion and exclusion of countries and regions

In all the analyses we have included all available data – even for countries that don't have much in common with the UK, such as Romania – for transparency. However, some countries' data is not available at the geographies used. This means for example that the United States is not included in comparisons of productivity at TL3 level because this data is not available. RDI data in particular is only available for a small number of countries.

Excluding non-comparable regions

In order to compare like with like, we judged it necessary to exclude some countries' overseas territories, autonomous communities and other similar places. Places such as French Guyana, Madeira, the Canary Islands and north African Spanish enclaves of Melilla and Ceuta are dramatically different to other developed countries and have very different geographies.

The list of excluded TL3 regions is as follows.

- Autonomous Region of the Azores
- Autonomous Region of Madeira
- Ceuta
- Melilla
- El Hierro
- Fuerteventura
- Gran Canaria
- La Gomera
- La Palma
- Lanzarote
- Tenerife
- Guadeloupe
- Martinique
- French Guiana
- La Réunion
- Mayotte

Excluding regions where data is known to be inaccurate

When we analysed the productivity data, we found two areas with mistaken figures for UK TL3 regions. These two areas are:

- UKL15 – Central Valleys
- UKH16 – North & West Norfolk.

In both cases, an error in the number of workers has inflated the productivity figures significantly. These figures are provided to Eurostat by the ONS, with the Eurostat data in turn used by the OECD.

The ONS is currently working with Eurostat to correct these figures. But while this process is ongoing we have excluded these two areas from our analysis.

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