

A stylized map of the North of England region, colored in a teal shade, set against a background of purple and green diagonal stripes. The map is the central focus of the cover.

STATE OF THE NORTH 2020/21

POWER UP, LEVEL UP, RISE UP

**Marcus Johns, Rosie Lockwood,
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and Anna Round**

December 2020

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SUMMARY

Last year's *State of the North* report revealed the extent of the UK's deep regional divides. This year, we consider what this means for people in the North, asking *who* is most impacted by these pre-existing divides, and by policies that seek to change them.

In December 2019, a new government was elected on a manifesto that promised to “level up every part of the United Kingdom” (Conservative Party 2019). This pledge inevitably invites questions about *how* that levelling up will be achieved, and about what material difference it will make to people and places across the UK.

Previous initiatives to reduce regional inequalities have focussed on economic performance, and GVA growth and economic productivity in particular – and these outcomes are important, of course. But they are increasingly recognised as inadequate drivers of ‘rebalancing’ that makes a real and tangible difference to people’s daily lives (Colebrook 2018). Economies need investment in physical infrastructure, but they also need commensurate investment in people – for example, in health, learning, and wellbeing.

And that investment in people must be ‘upfront’. Productivity creates the headroom to improve lives, but health, skills and human wellbeing also help to create productivity (Suhrcke et al 2005). If the economic argument were not enough, social justice demands that the economy of a wealthy country should offer all its citizens the opportunity to live a good life. The alternative is bleak; inequality corrodes democratic engagement, social cohesion and communities, as well as damaging individual lives.

Covid-19 has thrown our long-term inequities and lack of resilience into a stark spotlight. A recovery that simply restores the old order would be unsustainable and – for many – unacceptable. In this report we set out some of the ways in which the North’s economy does *not*, currently, create the conditions for a good life for everyone in the region – and how a truly ‘levelled up’ North might look.

For example, we found that in October 2020, approximately 657,900 people are claiming unemployment-related benefits in the North (a level not seen since 1994), while 40 per cent of women are paid less than the real living wage. Opportunities to work are unevenly distributed between and within regions, and healthy life expectancy falls below the English average in the majority of northern local authority areas.

In an extraordinary year, as we experience a global pandemic and approach Brexit, we propose the following ‘tests’ to help define ‘levelling up’ and increase accountability for initiatives that seek to rebalance – or ‘level up’ – the regions of England and the UK.

Test 1 – A fairer North: A productive, low carbon economy that raises living standards for all.

We will know we are making progress when the following benchmarks have been met:

- A reduction in the ‘productivity gap’ (the gap in GVA per hour worked) between the North and the English average with the aim of achieving

parity. Ideally, the strongest growth should be in local economies nearer the bottom of the current distribution to help narrow economic inequalities more quickly. Increased productivity will help to create prosperity for investment in people. *However*, it will not do this automatically or on its own. To secure the opportunity for a good life across the north of England, we need a different kind of economy, and substantial upfront investment in people.

- A stronger link between *growth in productivity* and *growth in real median wages*, i.e. between the economic outputs of work and the reward felt by the workers who produce these outputs. The share of income that goes to workers (the ‘wage share of income’) should grow consistently over the next five to 10 years at a *faster* rate than overall GVA growth, heading towards 60 per cent of economic output.
- A reduction in carbon intensity (as measured by ktCO₂ per £ of GVA) in all three regions of the North, and a shared commitment to achieving a net zero correlation by 2050 at the latest. All economic interventions should consider and appraise their environmental impact.



Test 2 – Better work, health, and pay: Decent work and wages for people in the North which keep pace with the cost of living, and healthier, longer lives.

We will know we are making progress when the following benchmarks have been met.

- A higher average hourly wage, with everyone in the North paid a ‘real living wage’ as a minimum.
- A reduction in the difference between median wage levels in different places. Specifically, the gap between the median wage levels in the three northern regions and the English median wage level should be **reduced by at least 50 per cent** over the next business cycle. As with test 1 above, the fastest wage growth should be in local economies which currently have the lowest median wage levels.
- A reduction in the gender pay gap in the North to the national rate across all major occupational groups, and a halving of the ethnicity pay gap in all parts of the North.
- An increase in long-term real wage growth, with wage increases that are *greater* than the rate of inflation. Wage growth should also *exceed* overall growth in regional and national economic output, as measured by total GVA.
- An increase in healthy life expectancy (HLE) by 3.9 per cent or more in all northern local authority areas. This is the equivalent of a 2.5-year increase in the national HLE rate.



Test 3 – A jobs-led recovery: Low unemployment, greater access to employment opportunities, and a reduction in child poverty.

We will know we are making progress when the following benchmarks have been met.

- A substantial reduction in unemployment as the economy recovers post-pandemic. This reduction should be felt evenly across the North, with the regional rate stabilising at a level *equal* to the English one. Total unemployment should fall below 5 per cent by the end of this parliament.
- Particularly harsh impacts of the Covid-19 crisis on the employment rates of particular places, demographic groups and/or sectors (‘scarring’) should *not* be observable in the longer term.

- An increase in jobs density across the North, with more people in employment and better access to employment opportunities. The jobs density rate in the North should be *equal* to that for England as a whole by the end of this parliament, and inequalities in jobs density rates should *fall* year on year within the region.
- A rise in the rate of qualification at NVQ level 3 and above so that rates in the North match those for the rest of England outside London by the end of this parliament.
- A narrowing of the gap between the percentage of children living in relative poverty after housing costs in the north of England and the rest of England outside London to one percentage point, *and* a reversal of the trend of rising child poverty on this measure that has taken place since 2013.

Test 4 – An empowered North: Better democratic participation, representation, and trust in local and national decision-making.

We will know we are making progress when the following benchmarks have been met.

- An increase in voter turnout in the North to match or exceed the English average, and an increased turnout in local and mayoral elections to match the trends towards higher turnout in London.
- The implementation of a devolution settlement for all parts of the North and the formal inclusion of participatory democracy tools to inform the work of combined authorities. This should be underpinned by a clear framework for English devolution in the forthcoming devolution and recovery white paper.
- By 2030, at least 80 per cent of councils in the North should have achieved a 50:50 gender balance among councillors, and half of candidates for metro mayoral positions should be women.
- The forthcoming shared prosperity fund should be devolved to combined and local authorities.
- An end to the policy of austerity and the development of a fair funding formula to fund the work of local authorities.

HOW OUR ECONOMIC ASSUMPTIONS NEED TO CHANGE

In developing these tests, we identified four assumptions which have defined efforts to ‘rebalance’ or ‘level up’ the UK’s economy in recent times. These need to change after the pandemic if we are to build an economy that supports a good life for the people who live, work, and invest in the North.

Assumption 1: That increases in productivity will, in time, bring economic and social benefits to people living and working in the North.

Research shows that the productivity gap between parts of the North and other regions of England is large and widening. There are also gaps within regions, with some areas faring better than others. But productivity gains, nationally and regionally, don’t necessarily lead to improvements in wages or quality of life. We also need to address structural inequalities through investment in health, education (including early years education), skills (including lifelong learning), housing and communities. This investment should be recognised as foundational, rather than conditional, for economic prosperity.

In the future: we need an economic approach which recognises the limitations of economic output (measured as GVA) as a proxy for human wellbeing. People do not automatically benefit when the economy in which they live grows, or becomes more productive. They only feel the benefits when policymakers take decisions that result in decent work, living wages, routes for progression, etc. In the midst of Covid-19, we

can't wait for the productivity gap to close before making the investments that will let people in the North deal with the challenges they are experiencing *now*.

Assumption 2: That the North should pursue 'Singapore-style' strategies of low-wage, low-productivity work and high aggregate growth to build our recovery from Covid-19 as well as our post-Brexit strategy.

This is borne out of a belief that light touch regulation, limited government and labour market deregulation are necessary for economic success, particularly in areas that rely heavily on traditional working class jobs (Blackwell and Coats 2011; Pike, Rodriguez-Pose and Tomaney 2006).

Our research shows that many people in the North *already* live in a low-wage economy, which is not delivering good outcomes in income, health, or routes out of poverty. In addition, any strategy for recovery from Covid-19 must recognise that the North will *start* its recovery from a more challenging position than other parts of the UK, because of pre-existing regional inequalities.

In the future: we need to work from the ground up, recognising and building on the existing strengths of all our places, their ability to anchor cultural and economic value, and a focus on the assets and opportunities that already exist and how they can be better used (Pike, Rodriguez-Pose and Tomaney 2006). We need to support businesses and individuals to make the most of new opportunities, and work together to build stronger local economies.

Assumption 3: That reduced public investment and diminished local authority budgets will be replaced by private and individual investment in communities.

The legacy of austerity has been particularly stark in the North. Our research has shown that its impact has disproportionately affected those who are most vulnerable, with knock-on effects for health, deprivation, and child poverty. In addition, removing the flow of local investment from economies has undermined our resilience and robustness in the face of a crisis such as Covid-19.

In the future: We need to get ahead of the pandemic by bringing an end to austerity, a restoration of a decent services and a recognition that expenditure in local economies through the state is a crucial part of supporting and de-risking economic investment, particularly in regions like the North. This requires a fair funding model that accounts for need. We also need urgently to rebuild the relationship of trust between central and local government; this has come under severe pressure as a result of the efforts to deal with the pandemic.

Assumption 4: That initiatives such as 'levelling up', the 'Northern Powerhouse' and devolution can and should be led by the centre.

Some attempts to deal with England's regional divides can seem highly politicised, designed with an eye to electoral outcomes (particularly in marginal seats). Successive governments have been keen to be seen to take action and to claim credit for any change. This has created an unhealthy situation where efforts to tackle regional inequalities and implement devolution have been constrained by an overly controlling hand in Westminster. Covid-19 has powerfully demonstrated the weaknesses and cost of this approach and the reluctance of the centre to cede control to elected leaders in combined and local authorities.

In the future: Leaders from across the North have an opportunity to work together to set the direction of our future economy. Now is the time for a refreshed regional approach – a 'whole North' effort to secure a better future for people everywhere. But real devolution should also be about enabling people to participate in the decision-making process in a way that is meaningful and inclusive.

1. INTRODUCTION

2020 has been a year unlike any other in living memory. The health, social and economic effects of the Covid-19 pandemic have not been felt equally, with some communities (for example black, Asian and minority ethnic people) and places (for example coastal towns) being disproportionately affected by the virus and its consequences (Patel, Kapoor and Treloar 2020, Parkes, Nanda and Round 2020, Centre for Towns 2020).

It has also created new regional inequalities, and deepened old ones. Parts of the north of England have seen especially high rates of infection and have been subject to more severe 'local lockdown' measures than many other parts of the country. This has led to a wider, and at times acrimonious, debate about the financial compensation for different tiers between central and combined/local government. The government was criticised for introducing a 'tier system' of infection control measures without the additional financial support for affected businesses and workers that was requested by local leaders like Greater Manchester mayor Andy Burnham and Liverpool city region mayor Steve Rotheram. This was just weeks before the implementation of a second national lockdown – with a full furlough package (Longlands 2020).

Covid-19 makes the challenge of reducing regional inequalities even greater than before – especially for a government whose election platform rested heavily on a promise to do just that. 'Levelling up' is the latest in a long history of initiatives that refer loosely to regional rebalancing, including the City Challenge Fund, regional development agencies, local enterprise partnerships and the Northern Powerhouse. To date, however, it is also one of the most striking for its lack of detail on how rebalancing is to be achieved.

The signals from government have not been encouraging and at times they have been contradictory. In February, for example, a cabinet reshuffle resulted in the loss of a minister for the Northern Powerhouse. The incumbent, Jake Berry MP, returned to the backbenches, and the duties associated with the role were incorporated into the transport secretary's brief. Moreover, some long overdue promises to the north of England, including "boots on the ground" on Northern Powerhouse Rail, have remained unmet this year.

The government have announced the creation of a new competitive £4 billion 'levelling up fund' for England, to be used to invest in "local infrastructure that has a visible impact on people and their communities" (HM Treasury 2020). Unfortunately this will be a centrally administered fund, thereby missing an opportunity to strengthen devolution built on the local knowledge and expertise of combined and local authorities.

The lack of progress on a clear programme of devolution has been disappointing. With the exception of Sheffield and West Yorkshire (the latter will elect its first metro mayor next year), devolution for other parts of the north of England has not yet been realised. Indeed, at the time of writing, a long-awaited government white paper, which promised to set

out a framework and the government's as yet unarticulated approach to devolution, has not yet materialised.

But the case for real and significant devolution has never been greater. The pandemic has demonstrated the deep inadequacies of the UK's centralised system of government to deal with a crisis like Covid-19 – particularly when the impacts are sharply differentiated and localised. The establishment of a highly centralised and outsourced system of 'track and trace', which has repeatedly failed to deliver, has been a prime example of where Whitehall has overlooked local expertise and capacity (Hall 2020).

Meanwhile, local government across the North is responding to the Covid-19 crisis and its challenges rapidly and effectively (House of Lords Public Services Committee 2020), despite a decade of austerity which has severely held it back (Johns 2020, Quilter-Pinner and Hochlaf 2019). The government's promise in the early days of the crisis to "do whatever it takes" has not followed through with increased funding for local authorities. After weathering a second lockdown, in many places the levelling up narrative rings increasingly hollow alongside the mounting human and economic cost of the pandemic.

At the same time the UK, and its regions, are in the process of managing the final stages of withdrawal from the European Union; the transition period ends on 31 December 2020. At the time of writing, a deal setting out the future trading relationship between the UK and the EU has not yet been agreed. This is significant for the north of England, which is especially vulnerable to the economic impacts of Brexit (Henry and Morris 2019).

In this context, our 2020 *State of the North* report argues that regional recovery from Covid-19 must start with a focus on *people*. We examine the evidence on how well the economy was working, pre-pandemic, to support a 'good life' for people in the North, considering a several measures of health, skills, employment, and democracy. Data on the rise in social security claims give a sobering insight into the emerging impacts of Covid-19 on employment, setting out the scale of the challenge ahead. Using this analysis, we propose a series of tests which are designed to help track progress on reducing regional inequalities. We identify the key assumptions that have underpinned our approach to regional 'rebalancing' to date, and propose a different future for the North, post-pandemic.

In our conclusions, we examine what we in the North can do to put in place the foundations of a future recovery. Our vision is a North no longer held back by regional inequalities, where everyone has the chance of a decent future and the region can fulfil its potential by taking power into its own hands. At its heart is the commitment to a good life for everyone – a life in which people have the freedom to live a life they have reason to value (Sen 1999).

What is a good life?

This report suggests that the goal of regional development should be to support people to live a 'good life', and that economic performance should be judged by the extent to which it does this (among other things). In a wealthy country such as the UK, what does a 'good life' look like?

The assumption that '... there is a good life, and that money is merely a means to its enjoyment' (Skidelsky and Skidelsky 2012) dates back to Aristotle (2004), who distinguishes between 'things that are good in themselves', including family, friends and good health, and 'things that are merely useful', including money (ibid). Distinctions of this kind have been revisited and revised many times over the intervening centuries (Diener and Suh 1997)– although they have more often been the concern of philosophers than of economists. This is because economics as a discipline has increasingly come to see itself as an objective rather than a social science, where ethical questions such as fairness are seen as the business of politics rather than economics (Milonakis and Fine 2009).

That money should not be a goal in itself is fairly uncontroversial in relation to individuals' personal lives, relationships and codes of ethics. That *economic policy* should treat it in this way is a considerably more radical proposition. Nevertheless, the question of what economic prosperity is *for* has attracted increasing interest since the 2008 financial crash. For example, the OECD's 'How's life?' publication (OECD 2020), which sets out data on wellbeing across 40 member countries, was launched in 2011. This followed a 2008 report (Sen, Stiglitz and Fitoussi 2008) which argued that if economies are not judged by their contribution to wellbeing and environmental sustainability, they are unlikely to promote these outcomes.

In this report we take a broadly similar approach to that of authors such as Raworth (2018), the Centre for Progressive Policy (2019) and Galbraith (1998). These view economies *holistically*, as interdependent with the social, human, environmental and democratic characteristics of the societies and places where they operate. They also measure the extent to which economies are *inclusive*, translating gains in growth and productivity into economic and social benefits for people.

All this can feel very abstract. We suggest, therefore, that the definition of a 'good life' should also be informed by Nussbaum's framework of 10 'central human capabilities' that provide the foundations for a good life (Nussbaum 2000; and see table 1.1). A healthy economy, we argue, is one that provides people with the resources and the freedom to *do* all of these things.

The capabilities start with the 'basics' of life in a wealthy country, such as the opportunity to live for a 'normal' lifespan, in good health and with adequate food and housing, and to move 'freely and safely' between places. However, they go considerably further – including the ability to enjoy an inner life ('to imagine, think and reason'), to form one's own concept of what a good life *is* and to engage in reasoning, to interact with nature and to participate in family, friendships, community and leisure.

Translated into the realities of a regional economy, this means having enough money to invest time and energy in all of these things – without the continual stresses of poverty, or the need to work excessive hours in order to make ends meet, or working conditions that threaten physical or mental health. Arguably, it also relates to the nature of the 'social safety net' offered by an economy and its accompanying fiscal and political frameworks.

Finally, the capabilities include political participation, conditions of employment and ownership, and freedom of assembly and speech. We argue in this report that these factors give people a stake in *how* their economy provides for a ‘good life’ – and in the definition of a ‘good life’ that operates in their community, region and country. Nussbaum’s 10 capabilities provide a starting point to begin exploring the priorities for a ‘good life’ in the North, post pandemic.

Achieving ‘economic inclusion’, with policies that proactively seek to increase human wellbeing, is a priority for many local and combined authorities (LGA 2020). This urgency is welcome, but we argue that it must be embraced by central as well as local government, and placed at the heart of future devolution deals (Round and Longlands 2020, Thomas, Round and Longlands forthcoming 2020). Without this shift:

“simply to blunder on without having a view about what wealth is for ... is an indulgence rich societies can no longer afford. The greatest waste now confronting us is not one of money but of human possibilities.”

Skidelsky and Skidelsky 2012

TABLE 1.1: THE ‘10 CENTRAL CAPABILITIES’ DEVELOPED BY MARTHA NUSSBAUM
10 foundations for a good life

Life	Being able to live to the end of a human life of normal length.
Health, diet and housing	Being able to have good health, adequate food and housing.
Physical health and accessibility	Being able to move freely and safely from place to place.
Senses, imagination, and thought	Being able to use the senses to imagine, think and reason.
Emotions	Being able to have attachments to people and to things outside ourselves.
Practical reason	Being able and having opportunities to form a conception of the good; discuss, debate and to engage in critical reflection.
Affiliation	Being able to live with and towards others, to recognise and show concern for other human beings and engage in various forms of social interaction. This includes freedom of assembly and political speech.
Nature	Being able to live with concern for, and in relation to, plants and animals.
Play	Being able to laugh, play and enjoy recreational activities.
Control over one’s environment	Political: Being able to participate effectively in political choices that influence one’s life. Material: Being able to hold property and have property rights; the right to seek employment on equal basis with others. Being able to work as a human being, exercising practical reason, as well as meaningful relationships with other workers.

Author’s interpretation of Nussbaum 2000

2. A NORTH RISING FROM CRISIS

The UK economy, and the economies of its nations and regions, have been characterised by inequality and uncertainty for decades. Last year's *State of the North* report showed that the UK is deeply regionally divided across economic measures of productivity, disposable income, and employment outcomes – characterising England as one of the most regionally unequal countries in the developed world (Raikes et al 2019). In 2020, Covid-19 has exacerbated England's divides, resetting the background to policies which seek to address regional inequalities.

This chapter explores what a more equal economy that works for people could look like.

THE SHIFTING SANDS OF REGIONAL ECONOMIC INEQUALITY

Agendas to 'level up' or rebalance must operate within this changing context. As such we need to ask the question: *What are we levelling up from?*

Productivity challenges

The UK has a well-rehearsed 'productivity problem': productivity has 'flatlined' for the decade since 2008 and is currently running at about 20 per cent below where it would be had it continued its pre-crisis trend (Haldane 2018). The UK lags its major competitors by as much as a third (ibid). This affects all sectors (Round and Hunter 2019) and to a large extent reflects a gap between productivity in the highest- and lowest-performing companies, with a long tail of 'low productivity' firms (CEJ 2018).

What is less acknowledged is how geographically marked these trends are. The economy of London and the south east of England is significantly more productive than the rest of the country, even when accounting for the different sectoral makeup of regional economies. The *causes* of this are complex, to the extent that it is sometimes referred to as a 'productivity puzzle'. Key factors include an entrenched low-wage, low-productivity equilibrium, an assumption that much of the 'everyday' economy is inherently 'unproductive', and the need for investment in infrastructure and innovation. But unless the spatial issue is addressed, productivity in the UK will *not* reach its potential.

Eroded economic resilience

Previous economic shocks, including the late 2000s financial crisis, have reinforced and deepened spatial inequalities. The shockwaves of that crisis were regressive, hitting more disadvantaged places and entrenching inequalities in the UK and beyond (Omstedt 2015), including in the UK's older industrial towns predominantly in the North, Scotland, Wales, and the Midlands (Beatty 2020). This was further heightened by the effect of the austerity agenda (Beatty and Fothergill 2014; Johns 2020) which amplified inequalities by reducing the capacity of the state locally to respond to need and hardship. Negative impacts were felt disproportionately in the North, with consequences for local authorities' abilities to respond to Covid-19 in 2020 (Johns 2020).

The 'resilience' of local economies (or 'place resilience') plays a role¹ in shielding people and their quality of life from economic shocks. Places with greater resilience are better placed to resist, absorb, or adapt quickly to economic shocks, thus maintaining their 'normal' economic performance or close to it (Martin et al 2013). Previous analysis by IPPR North has highlighted how place resilience varies considerably across the North (Cox et al 2016).

- Some places, like Cheshire and Warrington or York, North Yorkshire and East Riding, are highly resilient.
- Greater Manchester, Leeds City Region, Lancashire, the North East, and Liverpool City Region have some economic features that contribute to resilience, such as economic dynamism and a diversifying economic base. However, they also have some characteristics that make them vulnerable due to structural issues, particularly in the labour market.
- Less resilient areas in the North include those which depend heavily on single or small groups of industries, and/or which are vulnerable because of significant structural issues, particularly in the labour market. These areas include the Tees Valley, Cumbria, Sheffield city region, and the Humber.

However, a decade of austerity has eroded resilience right across the region and severely hampered its ability to deal with the social and economic impacts of the Covid-19 pandemic (Johns 2020). Likewise, the North's existing regional inequalities, including poor health, inadequate housing, deprivation, low wages and rising child poverty, will also undermine the region's ability to recover. This is compounded by the fact that the North still lags other parts of the country for investment in essential infrastructure including transport and broadband connectivity.

There are clear warning signs for the future of economic inequalities between and within regions. In the absence of place-informed, responsive policymaking as the crisis continues to unfold, spatial economic inequalities in the UK could worsen further (Bhattacharjee et al 2020).

Covid-19 has had an uneven impact across England to date, heightened by patchy local restrictions with limited support between the first and the second lockdown (McNeil et al 2020). Different places are experiencing the economic impact of this crisis differently and will continue to chart different journeys in the months and years ahead.

Policy agendas that seek to address regional inequalities are often focussed on interventions to address inequalities in productivity alone as a means to increase economic output and prosperity (Gardiner et al 2020). IPPR North have consistently argued for a broader understanding of regional inequalities and a need to refocus and invest to save (Raikes et al 2018). Clearly, tackling the gap in productivity is important but it should not be our only consideration and nor should it constitute our proxy for human welfare (McCann 2019).

RAISING UP OUR QUALITY OF LIFE AND EXPANDING OPPORTUNITY

In this report, we consider how progress to lower regional inequalities could be measured.

There are many policy areas which need attention to 'level up' the North, including improving regional inequalities in research & development (Thomas and Nanda 2020), fairer spending on economic development (Johns 2020), resolving inequalities in transport investment (Raikes 2019a), and a northern industrial strategy invested in building thriving, prosperous economies (Raikes 2019b). Given the context of Covid-19, we have focussed particularly on the need for good work,

¹ This concept of resilience in this context is subject to some debate and contestation, see Omstedt 2015, and MacKinnon and Derickson 2013.

jobs availability and decent wages as well as recognising the wider constitutional debate at the current time on the future of the UK and in particular, the state of devolved governance in England.

Our four tests are as follows.

1. **Test 1 – A fairer North:** A productive, low carbon economy that raises living standards for all.
2. **Test 2 – Better work, health, and pay:** Decent work and wages for people in the North which keep pace with the cost of living and healthier, longer lives.
3. **Test 3 – A jobs-led recovery:** Low unemployment, a reduction in child poverty, and greater access to employment opportunities.
4. **Test 4 – An empowered North:** Greater democratic participation, engagement, and trust in political decision-making.

3.

A FAIRER NORTH: A PRODUCTIVE, LOW CARBON ECONOMY THAT RAISES LIVING STANDARDS FOR ALL

THE REGIONAL PRODUCTIVITY GAP

Productive work, or labour productivity, is a crucial element of economic activity. It links the contribution of work and workers to total economic output, relying on the skills, health, and wellbeing of employees. And, in conventional economic theory, the productivity of an economy determines in large part its potential to support improved living standards, as this is what creates the ‘headroom’ to invest in people.

However, productivity does not do this automatically; policy choices determine who benefits from increases in productivity. Policy that pursues productivity as a *primary* goal runs the risk of creating or deepening social inequalities. For this reason, we treat productivity as the starting point for levelling up, not the whole story or even the end of the story. A North in which productive work makes a difference to people’s lives and living standards depends on policy frameworks that make sure productivity gains *are* passed on to the workers who help to create them, returning their investment of time, skills, and labour, and benefiting the communities and places where they live. The work of improving lives needs to start *before* productivity gains are achieved.

In addition, making investment in people conditional on increased productivity overlooks the importance of investment in education, skills, and good health as drivers of economic prosperity in the first place (Greater Manchester Independent Economic Review 2020; Sen 1999; Suhrcke et al 2005).

The UK has some of the biggest regional inequalities in productivity for a country of its size and economic development (Raikes et al 2019). Regional disparities in productivity (measured by gross value added (GVA)² per worker in this instance) have been present for at least 150 years (Gardiner et al 2020), and the gap between London and the South East and the rest of the UK has widened since the late 1970s (ibid). These inequalities persist between, but also within regions.

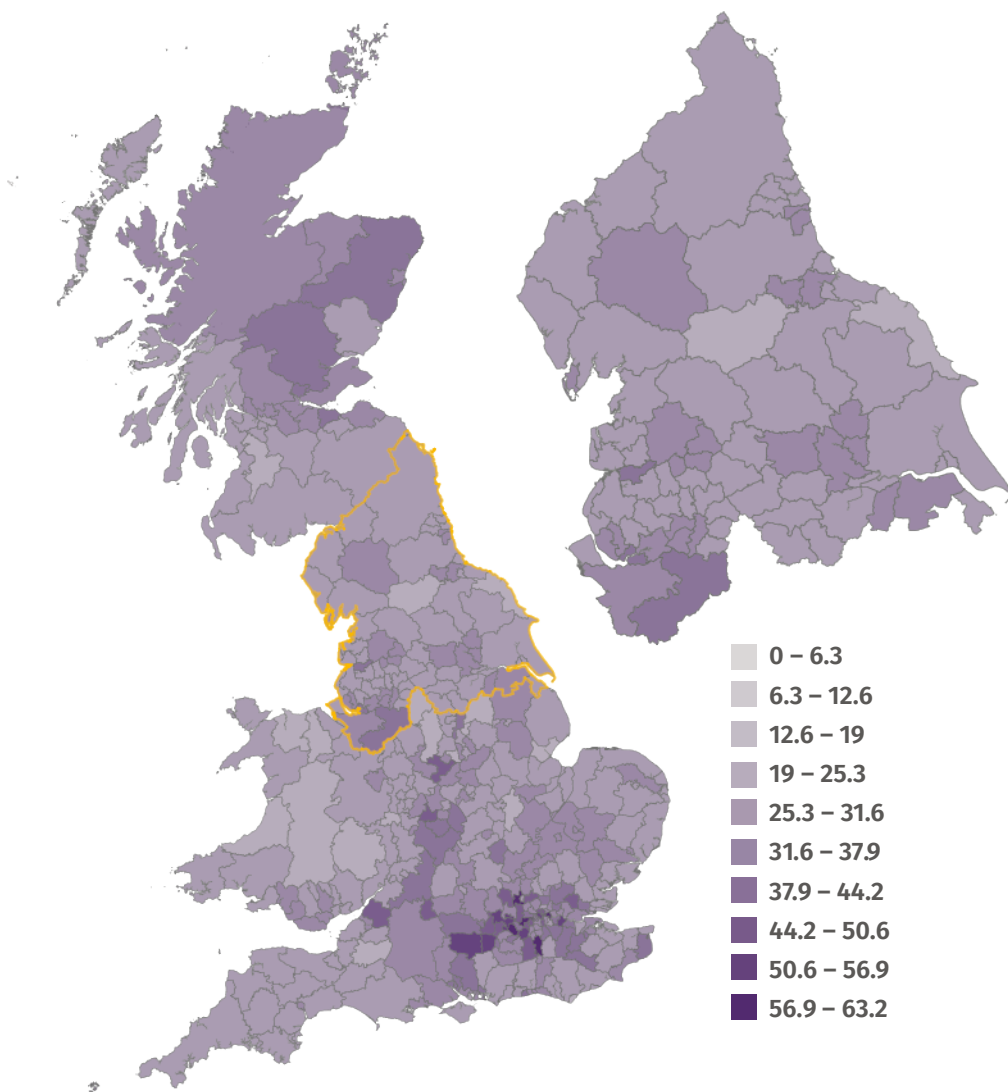
New research by the National Institute of Economic and Social Research (ibid.) shows that disparities in the regional stock of human capital (including skills) is a growing and dominant force driving inequalities in productivity across the nations and regions. At present high levels of skills in the population, as well as investment in human capital and research and development, are concentrated in London and the South East. Over time, this concentration could *further* widen the productivity gap as human capital rises and highly skilled workers from other regions are increasingly attracted to these regions. While new investment in human potential in the North is crucial to any levelling up agenda and productivity gains, so are strategies to retain highly skilled workers in the region.

² Gross value added or GVA is a common measure of economic output—it measures the value of an output minus intermediate consumption of goods and services in the process of production.

During the Covid-19 pandemic, certain sectors have – by their nature – adapted more easily to the new conditions of ‘working from home’; this is especially true of the business services and financial sectors which make up a large part of the economy in London and the South East (Bhattacharjee et al 2020). As a result, levels of economic activity have remained more consistent in these regions. This has major implications for policy relating to human capital and its role in reducing spatial inequalities – and in particular for the skills system.

FIGURE 3.1: PRODUCTIVITY IS HIGHLY UNEQUAL ACROSS THE UK AND WITHIN THE NORTH, WITH CLUSTERS OF HIGHER PRODUCTIVITY

Gross value added per hour worked in 2018 by local authority district



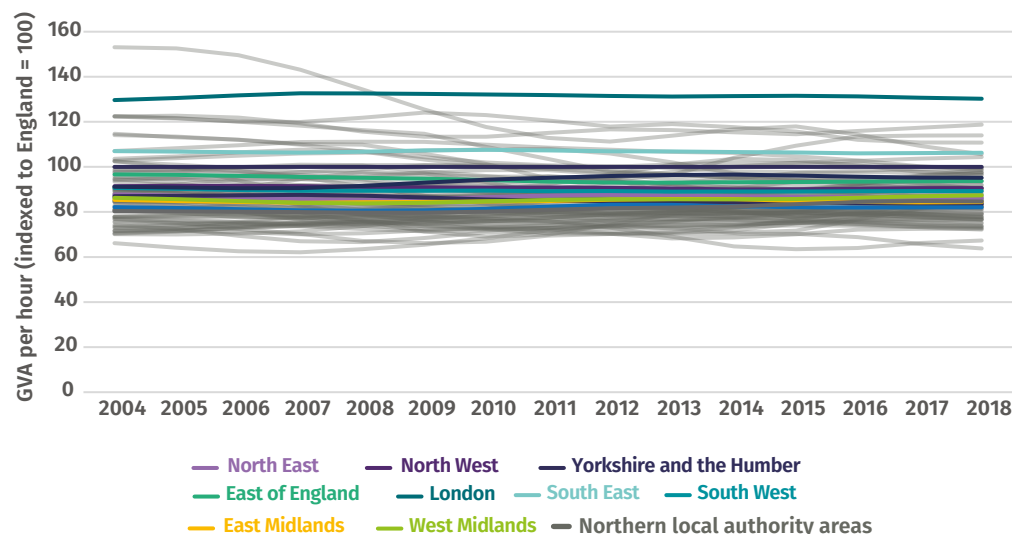
Source: Author’s analysis of ONS 2020b

Our analysis supports this and shows that inequalities are prevalent not only between regions but also within them. While productivity rates in the North are below the English average (and in particular the average for London and the South East), *within* the North the picture is substantially more complex and diverse, with some pockets of higher productivity, such as Cheshire East. Productivity gains for the North *as a whole* must be achieved through improvements in *all* parts of the region, with the fastest and largest gains in areas that start from furthest behind.

The gap between per capita productivity rates in the North and the rest of England has narrowed slightly in recent years on a per head basis, but the equivalent gap for GVA per hour worked has not (Raikes and Johns 2019). The vast majority of the North's local economies are *not* closing the gap in productivity per hour worked.³

FIGURE 3.2: THE PRODUCTIVITY GAP BETWEEN THE NORTH AND ENGLAND, BETWEEN THE UK'S NATIONS AND REGIONS, AND BETWEEN LOCAL AUTHORITIES WITHIN THE NORTH HAVE BEEN FAIRLY CONSISTENT IN RECENT ECONOMIC HISTORY

GVA per hour worked indexed to England, 2004–18 (2018 prices)



Source: Author's analysis of ONS 2020b

SKILLS AND PRODUCTIVITY

Lower levels of workforce skills are often cited as a factor in the North's lower rates of productivity. Raising rates of qualification across the population of the North is an important part of improving the region's economic performance. In addition, the association between unemployment and low skills levels has historically been more marked in the North than in other parts of England (Round 2016).

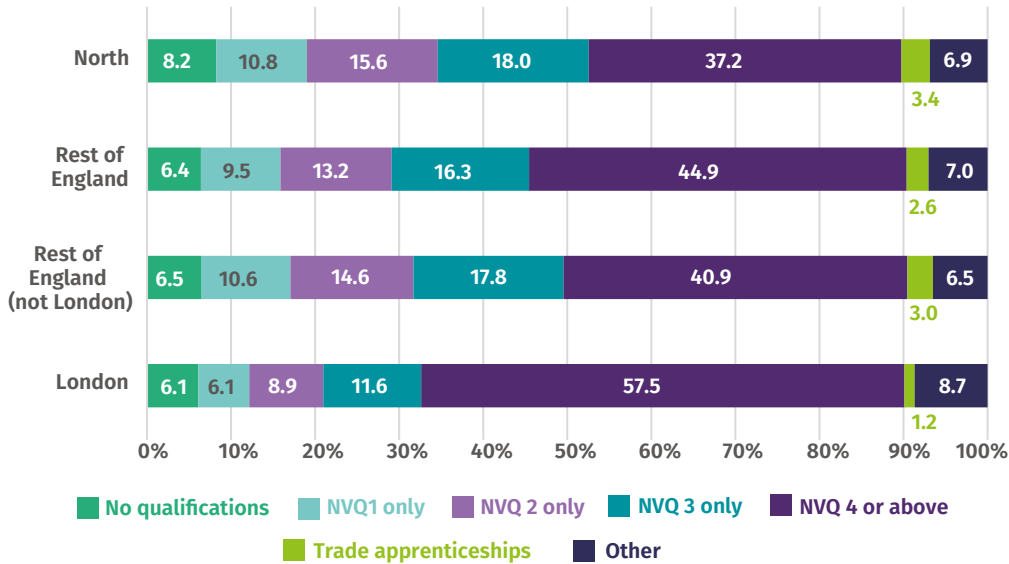
Compared to the rest of the population outside London, a *higher* proportion of people in the North have a qualification at NVQ level 2 or lower as their highest qualification, while a *smaller* proportion have a qualification at level 4⁴ or above as their highest qualification. Younger workers in the North generally have higher qualifications than older workers – but so do younger workers across the country. Among people aged 20–24 in the North, 61.3 per cent are qualified to NVQ level 3 or above – but 64.1 per cent of this age group are qualified to NVQ level 3 or above in the rest of England (outside London).

³ This latter measure is generally taken as a better indicator of an economy's productivity because it is the closest to a 'like for like' comparison between regions. Productivity per capita can be distorted by factors such as a large retired and/or full-time student population, who are largely economically inactive.

⁴ Level 2 is equivalent to GCSE grades A*-C or BTEC certificate/diploma level 2; level 4 is equivalent to a BTEC professional award or certificate/diploma at level 4, or to a certificate of higher education. The 'level 4 and above' group includes higher education graduates.

FIGURE 3.3: A HIGHER PROPORTION OF PEOPLE IN THE NORTH THAN IN THE REST OF ENGLAND HAVE NO QUALIFICATIONS OR ARE QUALIFIED ONLY AT NVQ LEVEL 1 OR 2

Proportion of the population aged 16–16 with each type of qualification as their highest qualification, 2019, north of England and other areas



Source: Author’s analysis of ONS 2020e

This potentially limits earnings in the North. For qualifications below degree level, the biggest wage premium is associated with holding a level 3 qualification rather than a lower one; holding a qualification at this level also makes it easier to get a job (Bhutoria 2016). Much current and projected jobs growth would require level 3 and level 4 skills as a minimum (PWC 2016; Round 2018). Potential investors may also consider the availability of skills within a population before deciding whether to locate in a particular area – with access to skilled workers a major factor in investment and location decisions.

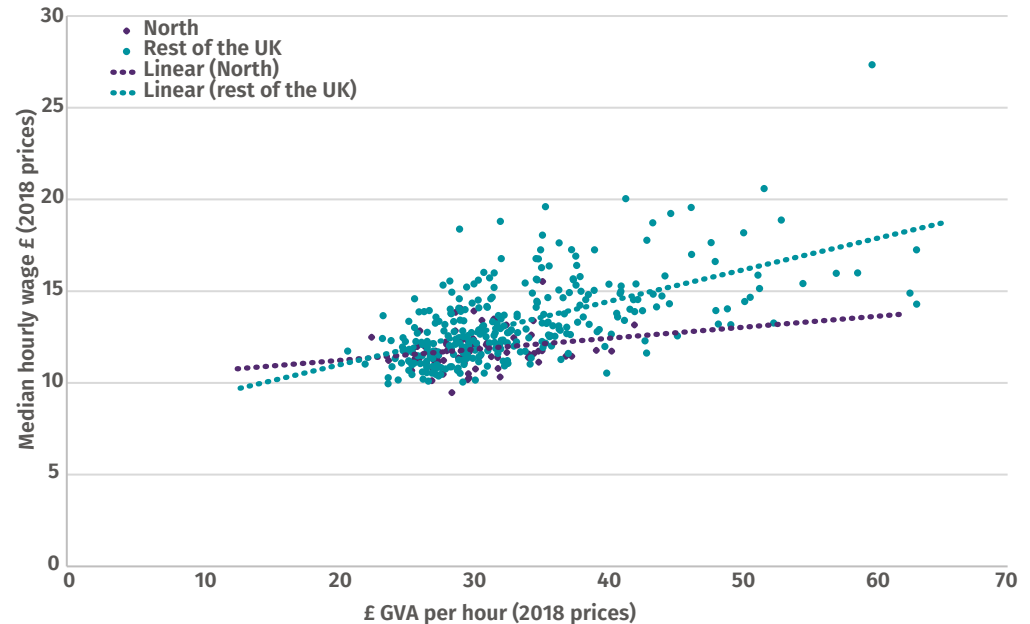
The experience of studying for a higher-level qualification can also foster vital study skills. These in turn make it easier for workers to continue learning and training over the course of a career, allowing them to adapt to new economic and labour market conditions and to undertake further study which can support progression in work. The disposition to keep updating one’s skills and to engage in lifelong learning will become increasingly important for employability as the job market changes rapidly. It is also an essential input to improved productivity (PWC 2019).

SHARING THE GAINS FROM PRODUCTIVITY

As discussed, productivity alone is an insufficient measure of how an economy supports the wellbeing of a population. Increases in GVA per hour worked are not necessarily passed on to people in the form of better wages, job opportunities and living standards. In recent decades, productivity gains have largely failed to translate into higher wages, and the share of national income going to wages and earnings has declined over time. This ‘labour share of national income’ fell from over 60 per cent during the 1970s to below 55 per cent in the 21st century – a trend that accounts for a significant proportion of the stagnant trend in median real wages (CEJ 2018). Our analysis shows that the relationship between productivity growth and median wages is even weaker in the North than in the rest of the UK.

FIGURE 3.4: THE RELATIONSHIP BETWEEN PRODUCTIVITY AND MEDIAN HOURLY WAGES IS WEAKER IN THE NORTH THAN IT IS IN THE REST OF THE UK

GVA per hour compared to median wages per hour by local authority area



Source: Author's analysis of ONS 2020b

DECARBONISATION AND PRODUCTIVITY

The UK and the North within it are committed to achieving net zero carbon emissions by 2050 by law, with significant ambition in the north of England to accelerate this. To meet this obligation, combat the climate crisis, and protect its natural assets, the North's economy must level down its carbon emissions as it becomes more productive and inclusive.

In the North, 64 local councils and combined authorities have declared a climate emergency – with many setting targets significantly ahead of the UK's nationwide net zero target by 2050 (Johns and Longlands 2020). There is a clear desire from northern leaders to secure a more sustainable life and economy.

A just transition can create green jobs – from housing decarbonisation to investing in renewable energy (ibid). But investing in green industries alone cannot fully decarbonise the North. The North's economy is currently more carbon intensive than the average for English regions. Previous IPPR research found that the North's economy emitted 0.51 ktCO₂ per £1 of GVA, compared to the English average of 0.44 ktCO₂ per £1 of GVA (Laybourn-Langton 2017).

Driving up economic growth alongside increases in productivity, wages, and consumer spending is bound *also* to raise carbon emissions in a carbonised economy. Interventions which seek to improve living standards in the North by stimulating economic activity will, without mitigation and consideration, make it more difficult to transition to a sustainable one.

The UK has seen some decoupling of emissions from economic growth, but to date this has not happened quickly enough to achieve the country's statutory goal of net zero carbon emissions by 2050. The North must take a significant lead in meeting this target, as Yorkshire and the Humber and the North West

are the regions with the highest absolute rates of industrial and commercial emissions (ibid).

Economic interventions can no longer be detached from this problem; nor can the task of securing a good life for people in the North. The climate crisis has *already* had some severe and negative impacts on northern lives, for example as a result of air pollution and extreme weather events. These and other effects will only become more problematic over the long term, with biodiversity loss, degradation of natural assets, and potential disruption to food supply chains. The economy and the environment cannot be seen as competing priorities; they are closely integrated parts of a holistic single system.

Recognising this, the North should pursue two complementary missions; securing the greatest socioeconomic benefit in decarbonisation, and securing the greatest decarbonisation in economic interventions. In practical terms, this means directing investment in innovation, infrastructure, and skills towards a wide range of 'green' sectors, and making radical changes to the skills system that mean people in the North can benefit from newly emerging 'green jobs'.

4. **BETTER WORK, HEALTH, AND PAY:**

DECENT WORK AND WAGES FOR
PEOPLE IN THE NORTH WHICH KEEP
PACE WITH THE COST OF LIVING,
AND HEALTHIER, LONGER LIVES.

Access to work that pays a decent and fair wage is a crucial elements of economic success. We define ‘decent wages’ as pay that is sufficient to live on, with average wages keeping pace with ambitious living standards and rising living costs. ‘Fair wages’ occur when people in different places and from different social groups are paid the same wage for equivalent work.

At present there are clear spatial inequalities in wages between regions and within the North; these inequalities contribute to the job quality crisis which has been observed in recent years (Johns et al 2019) and which continues apace. There is also evidence that rising employment rates in recent years have masked an increase in poor-quality and insecure work (Jaccarini and Krebel 2020; CEJ 2018). The latter is characterised by low and unfair wages, a lack of agency and voice at work, insecurity, unreliable hours, lack of fair treatment and respect, limited learning and progression opportunities, and/or inadequate health and safety at work (Johns et al 2019).

A job was once a reliable route out of poverty, but this link has now been ruptured (CEJ 2018). The growth of ‘indecent work’ has coincided with a growing number of families in in-work poverty across the UK (Innes 2020). Wage levels are only one element of decent work (see Johns et al 2019), but they are important to help support improvements in living standards and make work a viable way to escape hardship.

The many pitfalls of low-wage economies include:

- increased poverty levels, especially in an economy like the UK’s where costs of living (and in particular housing costs) are high.
- damaged productivity: there is evidence that low wages place downward pressure on labour productivity by reducing the incentive on firms to invest in skills or equipment (CEJ 2018)
- weakened economic multipliers, as less money flows to people who tend to spend a higher proportion of their income *and* to spend this locally.
- restricted ability in local economies to sustain high streets and other social settings which are fundamental to people’s identities and the ability to socialise in their community (LCRTCC forthcoming).

As shown in table 4.1, all three regions in the North have a lower hourly median wage than in England overall, and there is inequality within this too.

TABLE 4.1: ALL THREE REGIONS OF THE NORTH HAVE LOWER HOURLY MEDIAN WAGES THAN IN ENGLAND OVERALL

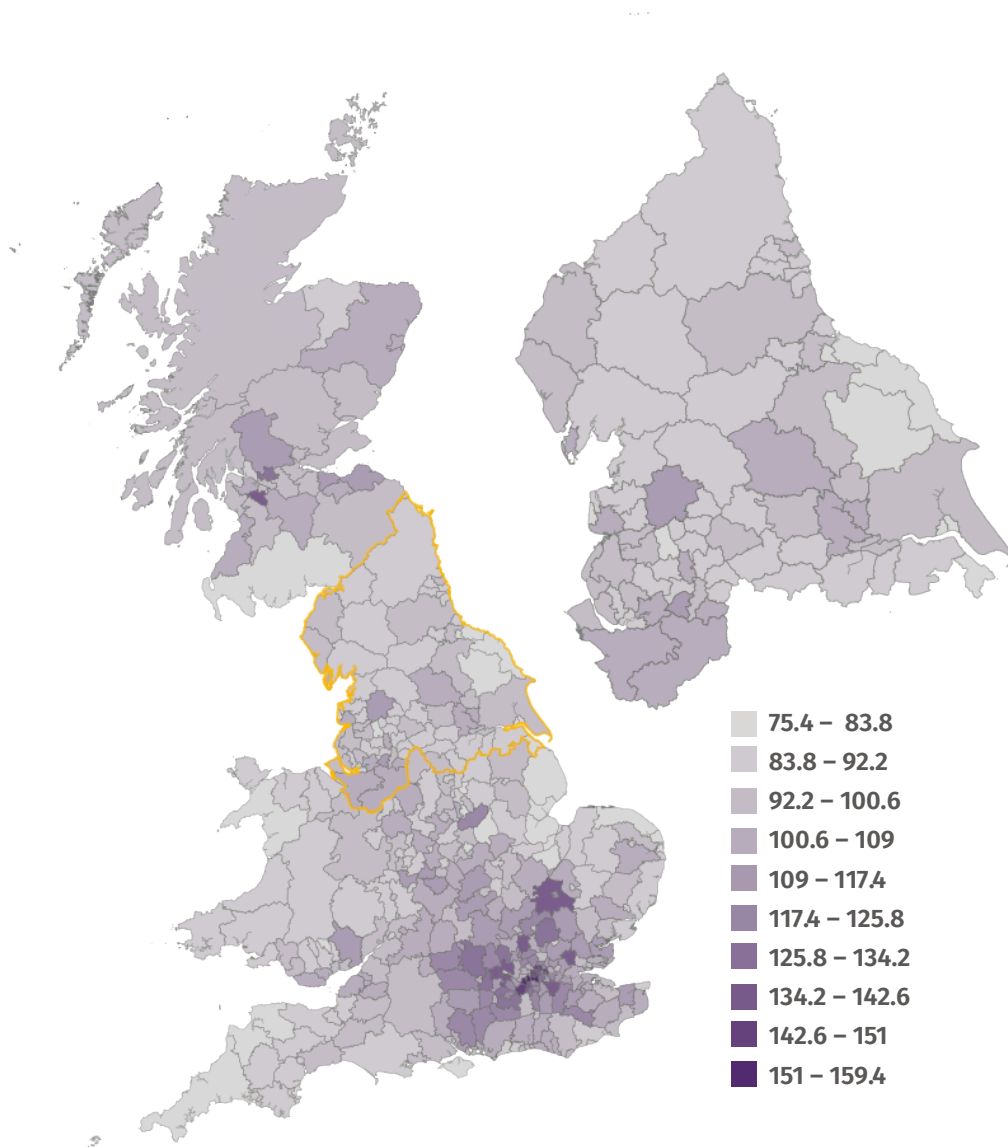
Median hourly wages in 2019 compared at the regional level

	2019 median hourly pay (£, 2019 prices)
North East	12.06
North West	12.61
Yorkshire and the Humber	12.22
England	13.41

Source: Author's analysis, ONS 2020c

FIGURE 4.1: MEDIAN HOURLY WAGES ARE GENERALLY LOWER IN THE NORTH AND UNEQUAL WITHIN IT

Mapping median wages by local authority

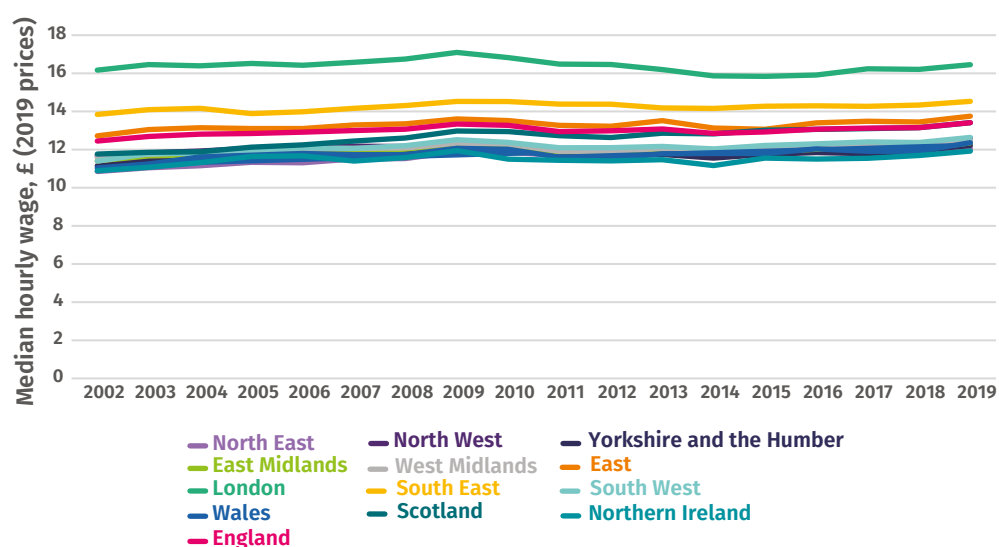


Source: Author's analysis of ONS 2020c

Real wage growth has been consistently low. Real wages grew by only 1 per cent in the North East and Yorkshire and the Humber, and 2 per cent in the North West in the decade between 2009 and 2019 (ONS 2020b). Lower growth across England (at 0.5 per cent) means that the median wage gap between regions has narrowed over the decade marginally. However, overall too many people are living on wages that are worth little more – or even less – than they were a decade ago.

FIGURE 4.2: MEDIAN REAL WAGE LEVELS HAVE BEEN FLAT ACROSS THE UK AND WITHIN THE NORTH

Median wage levels by region from 2002 to 2019 in 2019 prices



Source: Author's analysis of ONS 2020c

Wage growth within the North has been also been uneven. Places like Richmondshire (13 per cent real wage growth from 2009 to 2019), Allerdale (11 per cent), and Eden (10 per cent) saw strong real wage growth, while local authorities including Copeland (-13 per cent), Rossendale (-7 per cent), and Rochdale (-6 per cent) saw a fall in the median real wage over the decade (ibid). That leaves too many people trying to pay rising living costs after over a decade of falling real-terms pay.

The gender pay gap and the ethnicity pay gap are both wider in the North than elsewhere in the UK



PAY GAPS AND WAGE INEQUALITY

The gender pay gap and the ethnicity pay gap are wider in the North than elsewhere in the UK. This has an impact on the wellbeing of individuals and families, and on regional economies – which, as discussed above, suffer if a large proportion of workers are effectively underpaid.

The North has also seen an increase in the number of people who are paid less than the real living wage of **£9.30 per hour** (the amount that the Living Wage Foundation calculates is required to meet the real cost of living in 2019/20 (LWF 2020)).⁵ This is particularly acute for women workers, of whom nearly 40 per cent are paid less than the real living wage.

⁵ According to the Real Living Wage Foundation, this was £9.30 in 2019/20 outside of London and £10.75 for London – in comparison to the national minimum ('living') wage set by government at £8.21.

TABLE 4.2: 1.5 MILLION WORKERS IN THE NORTH ARE PAID LESS THAN THE REAL LIVING WAGE PER HOUR

Estimated number of workers being paid less than the real living wage per hour in the North

	Employees (million)	Proportion of total employees
Total	1.50	25%
Women	1.17	39%
Men	0.34	11%

Source: Author's analysis of ONS 2020c

Historically, the gender pay gap and the ethnicity pay gap have been wider in than elsewhere in the UK. The overall gender pay gap remains higher in the North East than the national rate, although it has narrowed in the North West and Yorkshire and the Humber over the past year. In parts of the North, the gender pay gap remains higher than the national rate for skilled trades, sales and customer services, and process operative roles (ONS 2020f).

The ethnicity pay gap is also larger in the North East and North West than in the majority of English regions. Yorkshire and the Humber has the highest gap outside London.

Gender and ethnicity pay gaps reflect a range of factors. Some of the steps that can be taken to close them are practical and responsive to policy change, for example improving opportunities to enter well-paid work or to progress at work, as well as to access skills and training. Others involve enhancing the availability of childcare and flexible work, as well as the distribution of job opportunities between places. And the problem as a whole demands an approach that directly addresses the wider structural reasons that mean women and people from minority ethnic groups are paid less.



TABLE 4.3: THE ETHNICITY PAY GAP IS HIGHER IN THE NORTH EAST AND YORKSHIRE AND THE HUMBER THAN IN THE MAJORITY OF OTHER ENGLISH REGIONS OUTSIDE LONDON

Average hourly rate of pay for white and other ethnic groups, English regions

	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West
White	£10.93	£11.63	£11.45	£11.36	£11.84	£12.38	£17.30	£13.45	£11.63
All other ethnicities	£9.89	£11.00	£10.00	£10.58	£10.71	£13.45	£13.19	£12.66	£10.92
Percentage gap	9.5	5.4	12.7	6.9	9.5	-8.6	23.8	5.9	6.1

Source: ONS 2020a

INCOME INEQUALITY AND POVERTY

IPPR research has highlighted the unequal impact of Covid-19 on household incomes, noting that extra financial pressures as a result of the pandemic point towards a debt crisis for the many households that were already in a precarious financial position (McNeil et al 2020, Round, Nanda and Rankin 2020). While wages

are only one component of income, they are a significantly more important part of it for households at the lower end of the income distribution.⁶ Combining this evidence with the findings in the previous chapter, we anticipate that a highly precarious and worrisome situation is developing for the north of England due to the predominance of low wages in the region pre-pandemic.

CHILD POVERTY

Many adults who live in poverty can do little to change their circumstances; children can do even less. Living in income poverty can mean going without essentials like heating, warm clothes, and healthy food, as well as opportunities to learn and develop such as hobbies and leisure or school trips (Bradshaw 2020). About one-third of the recent increase in infant mortality in the UK can be attributed to rises in child poverty (Taylor-Robinson et al 2019), and deprivation in childhood is associated with health problems later on (Wickham et al 2016). Poverty also damages children's educational attainment (Hutchinson et al 2019), as well as their experiences of childhood.

The north of England has stubbornly high rates of child poverty. In 2016/17 to 2018/19, about 34 per cent of children in the north of England lived in households with an income below 60 per cent of the median for that time after paying their housing costs. This is about 4 per cent higher than the English rate, and about 5 per cent higher than the rate for the rest of England excluding London. This gap has opened up since 2011/12–2013/14, when the northern rate was close to the English rate outside London (figures from DWP 2020; authors' calculations). The North East saw the largest *rise* in child poverty of any English region between 2013 and 2019, at 9 percentage points, compared to 3 percentage points nationally (Round and Longlands 2020).

National policy on social security transfers, taxation, and housing is important in reducing rates of child poverty. But so is a dynamic local economy that offers good quality work, along with systems that make it easy for parents to access secure jobs that pay a decent wage. Policies such as employment support, childcare provision, transport, and interventions to reduce the costs of the school day and to engage parents with their children's education can all make a difference (Round and Longlands 2020).

⁶ Other income components include social security payments, income from savings and investments (including property), pensions and annuities, informal transfers, etc.

5. ACCESS TO OPPORTUNITY

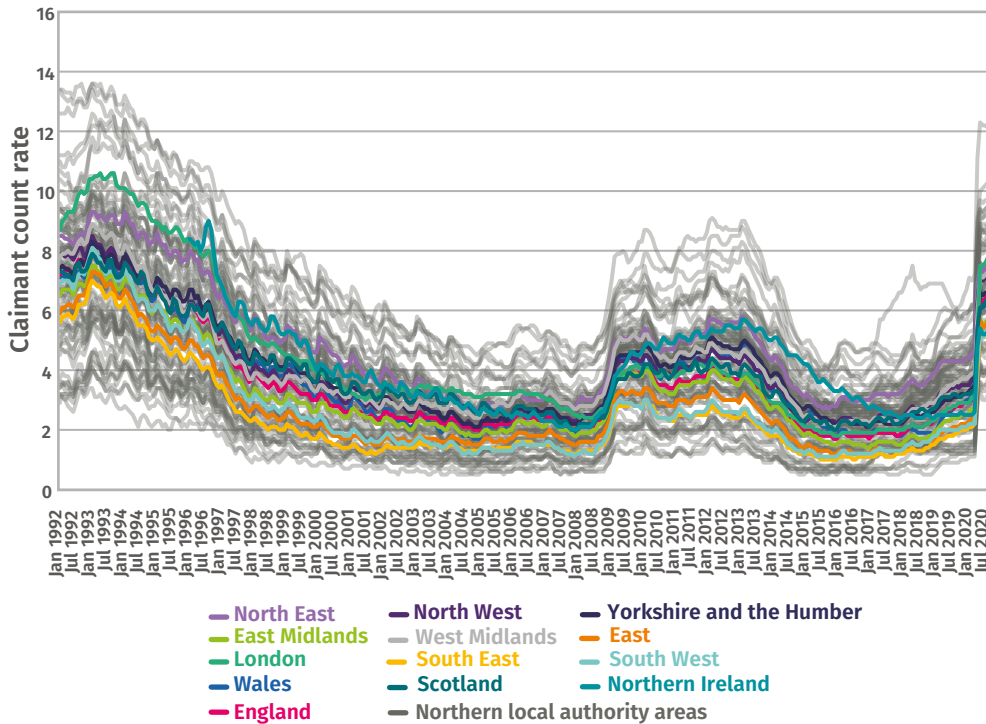
UNEMPLOYMENT AND THE IMPACT OF COVID-19

Access to productive, well-paid work depends on access to job opportunities. We are entering a period of exceptionally high unemployment and stifled job creation – severely limiting the number of jobs available (McNeil et al 2020). This, alongside high long-term unemployment, creates vicious circles in local economies, including:

- depressed local expenditure and threats to the viability of jobs and businesses that depend on consumer expenditure or on supply chains
- ‘hysteresis’, or a situation where even short-term unemployment leads to a longer term loss of skills and increasing distance from the labour market; over time, this can mean that some people drop out of economic activity (including seeking work) altogether
- threats to people’s sense of self-worth or happiness if they cannot access employment.

FIGURE 5.1: UNEMPLOYMENT (ESTIMATED USING THE CLAIMANT COUNT FOR UNEMPLOYMENT-RELATED BENEFITS) HAS ACCELERATED RAPIDLY AS THE PANDEMIC PROGRESSES

Claimant count by local authority in the North monthly, 1992–2020



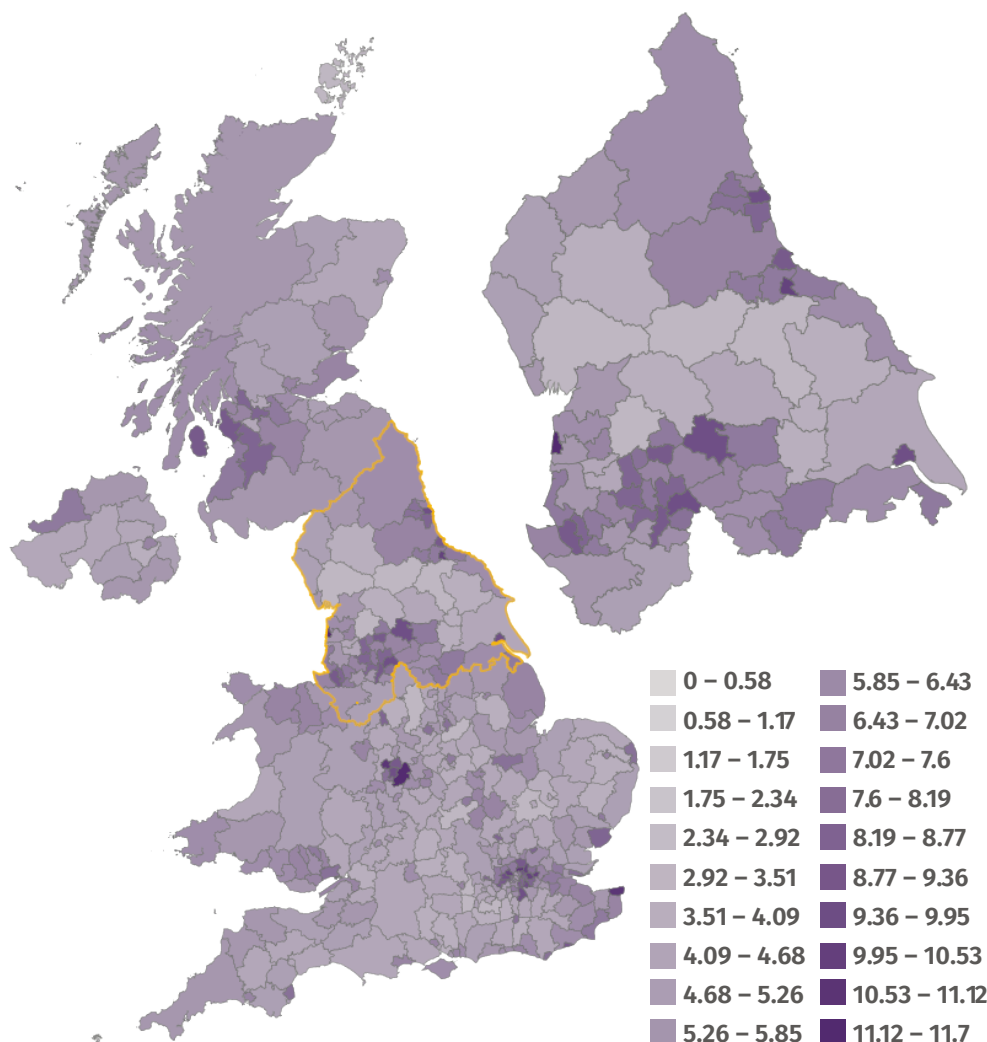
Source: Author’s analysis of ONS 2020d

Our analysis of data on the number of people claiming unemployment-related benefits highlights the scale of the crisis we now face. In October 2020, approximately 657,900 people were claiming unemployment-related benefits in the

North. This suggests that the claimant rate is around **7.2 per cent** of the working-age population (ONS 2020d). This rate and level have not been seen since 1994 – during the early 1990s recession, which was well known for causing exceptionally high unemployment.

Mapping the data by local authority also suggests that this proxy for unemployment is highly concentrated (as of September 2020) in particular places. These include the North’s cities and their surrounding areas (for example, Greater Manchester, Liverpool City Region, Newcastle, Tees Valley, Leeds City Region and Hull), and also coastal towns such as Blackpool (which currently has the highest rate in the country, at over 11 per cent).

FIGURE 5.2: THE NORTH FACES HIGH UNEMPLOYMENT AS THE PANDEMIC UNFOLDS; THIS IS ESPECIALLY CONCENTRATED IN PARTICULAR PLACES INCLUDING CITIES AND COASTAL TOWNS
 Claimant count by local authority in the North (September 2020)



Source: Author’s analysis of ONS 2020d

Higher unemployment has been a prevalent feature of the North’s economic history, and the analysis above suggests that this will be worsened considerably by this current crisis. Even prior to the onset of Covid-19, jobs growth was overwhelmingly concentrated in London and the South East (Raikes et al 2019).

OPPORTUNITIES TO WORK: JOBS DENSITY IN THE NORTH

Capturing ‘access to opportunity’ in data is a difficult task. In this report we use jobs density – the number of jobs per working aged person in an area – to identify levels of economic opportunity and the concentration of economic activity in particular places.

TABLE 5.1: JOBS DENSITY (THE NUMBER OF JOBS PER WORKING-AGE PERSON) IS LOWER THAN THE ENGLISH AVERAGE IN ALL THREE REGIONS OF THE NORTH

Regional jobs density (2018)

	Job density (jobs per person aged 16–64)
North	0.70
North West	0.73
North East	0.64
Yorkshire and the Humber	0.70
England	0.74

Source: Author’s analysis of ONS 2018a and 2018b

TABLE 5.2: SPATIAL INEQUALITIES IN JOBS DENSITY AND THE GAP BETWEEN THE NORTH AND THE ENGLISH AVERAGE HAVE PERSISTED ACROSS DIFFERENT ECONOMIC CONTEXTS

Historic spatial inequalities in jobs density

		1993	2007	2011	2018
Standard deviation ⁷	Northern local authorities	0.123	0.129	0.124	0.14
	Regions	0.04	0.042	0.041	0.056
Range ⁸	Northern local authorities	0.609	0.612	0.474	0.608
	Regions	0.154	0.166	0.161	0.223
North East	Level	0.566	0.648	0.604	0.635
	Gap with England	-0.055	-0.073	-0.073	-0.106
North West	Level	0.609	0.709	0.659	0.733
	Gap with England	-0.013	-0.011	-0.017	-0.008
Yorkshire and the Humber	Level	0.613	0.699	0.645	0.702
	Gap with England	-0.009	-0.021	-0.031	-0.039
North	Level	0.603	0.695	0.645	0.705
	Gap with England	-0.019	-0.025	-0.032	-0.036
England	Level	0.622	0.72	0.677	0.741

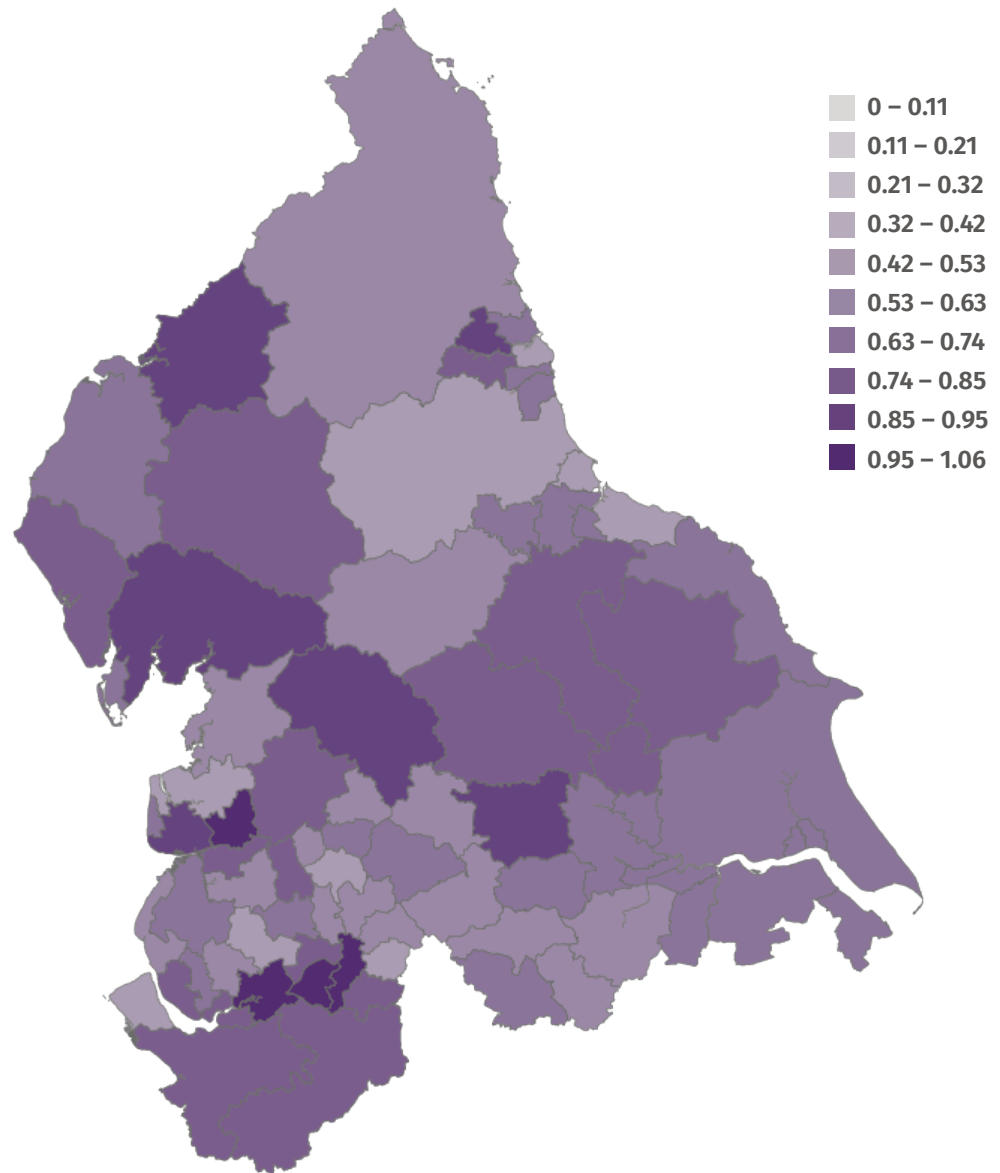
Source: Author’s analysis of ONS 2018a and 2018b

7 The ‘standard deviation’ for a dataset measures the extent to which individual values within it vary on either side the mean or average value. The higher the standard deviation, the greater the number of values that are either markedly higher or markedly lower than the mean. In this case, the fact that the standard deviation has *increased* over time shows that differences between values for individual local authorities and/or regions have persisted across different business cycles.

8 The ‘range’ of a dataset is the difference between the highest and lowest values. The fact that the range for northern local authorities has remained similar over different business cycles shows that the absolute scale of inequalities between highest and lowest within the region has remained fairly constant. The increase in the range for regions shows that the absolute gap in access to opportunities has increased.

FIGURE 5.3: ECONOMIC ACTIVITY AND OPPORTUNITY AS MEASURED BY JOBS DENSITY IS UNEQUAL ACROSS THE NORTH, AND PARTICULARLY LOW IN THE TRANS-PENNINE BELT/ M62 CORRIDOR OUTSIDE THE LARGEST CITIES

Jobs density by local authority in the North



Source: Author's analysis of ONS 2018a and 2018b

At the regional level, jobs density is lower in the North than in England overall – although the North West has a rate closer to the national one than the North East or Yorkshire and the Humber. The rising levels of unemployment discussed above take place in the context of pre-existing unequal access to job opportunities.

And we see further inequalities when we look beneath the regional level, with jobs highly concentrated in particular areas, as shown in figure 5.3.

The jobs density gap between the North and the rest of England has grown over time, indicating a concentration of new employment opportunities elsewhere in England. Indeed, around half of all new jobs created in England between 2009

and 2019 were in London and the South East – home to just one-third of England’s population – stoking a growing divide in access to employment (Raikes 2020).

Table 5.2 highlights jobs density by region during the last two recessions in the business cycle (1993 and 2011) as well as the economic high (in terms of national GDP) in 2007 before the financial crisis, and the most recently available data, in 2018. It highlights that although jobs density has improved overall since 1993, it has become more unequal between and within regions. Economic opportunity has concentrated in particular local economies during recent growth periods, both between regions and within the North. Figure 5.2 shows how relatively stubborn this gap has been (author’s analysis of ONS 2018a and 2018b).

HEALTH AS AN ASSET AND AN OUTCOME

Population health, and the health of the economy are interdependent (Marshall et al 2018; Marshall 2016). A productive economy that offers widespread access to decent work and wages and a progressive social security system helps to create good health. In turn, health is an asset that supports the prosperity and productivity of individual workers and firms, and the economy (local and national). By contrast, poor-quality work and social inequalities damage health, and illness is associated with lost productivity through absenteeism and ‘presenteeism’ (working while sick) (Benach 2013; Suhrcke et al 2005). If the northern economy is to work for people, it needs to support good health in the northern population.

In 2020, Michael Marmot’s review of health inequalities in England found that the UK is ‘faltering’ on several key measures. Prominent among these is healthy life expectancy – a measure of the number of years that a person can expect to live in good health.



Across the UK, women’s healthy life expectancy *fell* slightly over the decade between 2009/11 and 2016/18; for men it increased by just 0.4 per cent (Marmot 2020). Poor rates of healthy life expectancy are strongly associated with deprivation (ibid).

Healthy life expectancy varies considerably in the north of England, but in the majority of local authority areas it falls *below* the English average of 63.9 for women and 63.4 for men.⁹ Within the north of England, a small number of local areas¹⁰ have an average healthy life expectancy of under 50, and many have a figure well below the state pension age (Raikes, Millward and Longlands 2018).

Over the past decade, about one-third of local authority areas in the North saw a fall in healthy life expectancy for men and just under 60 per cent saw a fall for women. There are also substantial inequalities in healthy life expectancy *within* the North. While some local authority areas have an average healthy life expectancy under 60 for one or both sexes, others – for example parts of Cheshire and Yorkshire – have rates better than many London boroughs.

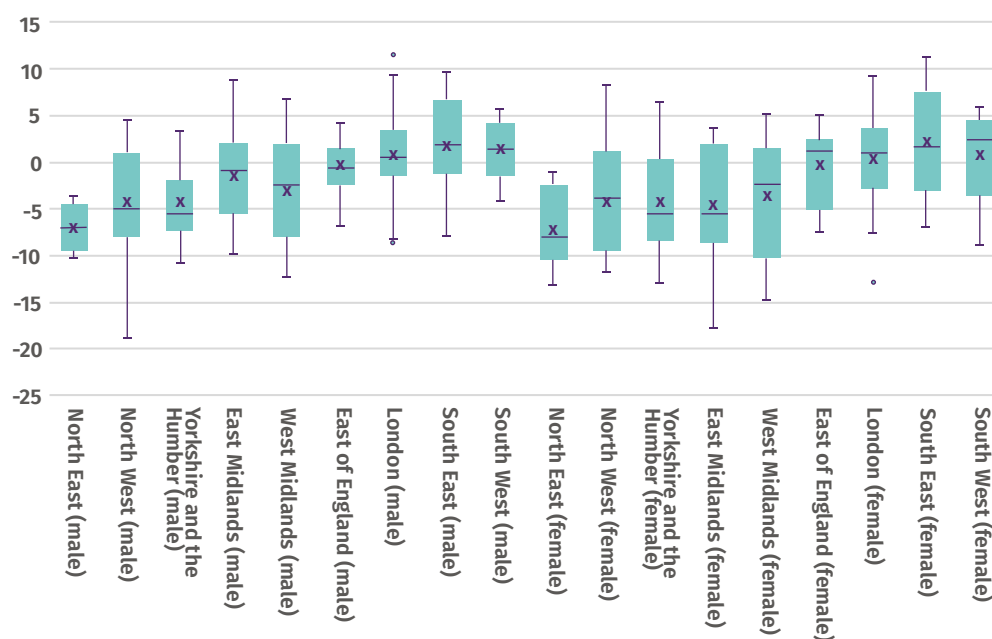
9 Outcomes in the Midlands are better than the North for men but worse for women.
 10 The analysis discussed here considers data for middle layer super output areas, which are home to about 2000 households.

In 2018, the (then) secretary of state for health announced the government’s ambition to increase healthy life expectancy in England by at least five years and to reduce the gap between the richest and the poorest groups. This equates to around a 7.8 per cent increase over 15 years, and was described as an extremely ambitious aim for the government of any high-income country (Marteau et al 2019). Between 2009 and 2018, only 10 out of 150 local authority areas saw change at this rate for men,¹¹ and only 12 of 150 for women.

In the North, some areas would need an even *greater* increase than this just to catch up with the national rate for 2018. In that year, 13 local authority areas in the North had healthy life expectancy that was *lower* than the national rate by 7.8 per cent or more for men; 21 had a rate that was lower for women by the same factor. Across the rest of England, nine areas lag the English rate by this much for men and eight for women.

FIGURE 5.4: THE MAJORITY OF LOCAL AUTHORITY AREAS IN THE NORTH OF ENGLAND HAVE RATES OF HEALTHY LIFE EXPECTANCY THAT LAG THE ENGLISH RATE, IN MANY CASES BY MORE THAN 5 PER CENT

Percentage difference between the English rate of healthy life expectancy and the rates for county and unitary authority local authority areas, English regions



Source: ONS 2019b

Improving health is a hugely complex task, demanding both behavioural and preventative health interventions and wider policy decisions that “create healthier physical, economic, digital, social, and commercial environments” (Marteau et al 2019). This includes addressing the full range of social and economic conditions that impact on health, including poverty, housing, transport, education, food systems, and employment. These in combination have a substantially greater impact than dedicated health services on health outcomes and rates of health across a population (Burns 2017).

¹¹ Calculated as an additional 3.3 years or 5.2 per cent increase over five years.

A HEALTHY ECONOMY: NATURAL ASSETS AND HEALTH ASSETS

From the air that people breathe, to the water they drink, to the outdoor spaces where they exercise, good physical and mental health is underpinned by nature (Hunter 2020). However, the opportunity of nature in the North as a driver of good health has not yet been fully realised. Northern nature is particularly rich and the region holds some of the UK's most important natural assets including 88 per cent of all of England's peatland and 70 per cent of all wetlands. Economically, these are crucial to help underpin tourism and the visitor economy as well as providing the foundations of our natural resilience in the face of climate change and the urgent need to decarbonise our economy.

Access to nature is unequal. Some social groups (such as residents in deprived areas and black, Asian and minority ethnic communities) are less likely to be able to benefit from its opportunities (ibid). And when nature is deprioritised and overlooked in economic policy, the consequences for public health can be severe. For example, good upland management can reduce the risk of wildfires, which have a serious impact on the health of surrounding populations (Longlands and Hunter 2018). Many parts of the North are particularly susceptible to flooding, increasingly so as a result of climate change. In recent years, the direct and indirect impact of flooding in cities like Hull, Carlisle and Doncaster have had serious economic impacts (Hunter 2019).¹²

High levels of air pollution are a particular risk to the opportunity to live a healthy life, with links to strokes, heart disease, lung cancer, and respiratory diseases like asthma (World Health Organisation 2018). The proportion of mortality attributable to particulate air pollution is 4.5 per cent in Yorkshire and the Humber, 4.3 per cent in the North West, and 3.8 per cent in the North East.

These are all below the England average of 5.2 per cent (Public Health England); however, there are dangerous levels of air pollution in some places within the north of England. For example, research by IPPR North and King's College London found that levels of air pollution in Greater Manchester are 'lethal and illegal', resulting in an estimated 1.6 million life years lost over the coming century without action, and costing £1 billion each year to the economy of the city region (Cox and Goggins 2018). As with other areas highlighted in this research, the impacts of air pollution do not affect all groups equally. Children, people living in deprived communities, and ethnic minorities are disproportionately negatively affected (ibid).

The quality of the natural environment is a determinant of good health. Therefore, any strategies to 'level up' health must take wider account of environmental factors which influence health inequalities. Nature also supports the economy and opportunities for work in the North; for example, it supports dynamic tourism and leisure economies in several areas, and also provides the foundations for sectors such as food and green energy.

¹² Overall, the Environment Agency estimate that the direct economic damage of the 2015/16 floods was likely to be in the range of £1.3 billion to £1.9 billion.

6. AN EMPOWERED NORTH

Any plan to ‘level up’ England must start with an acknowledgement that the country’s centralised system of governance has failed its regions. Future solutions to our regional inequalities must come not from Westminster, but from regional leaders and the citizens who elect them (Raikes et al 2020). In this chapter, we set out indicators of empowerment in the North, including a commitment to strengthened devolution and a widespread sense among the population that they can participate meaningfully in political decisions that affect their region and their lives.

The north of England has a rich history of democratic innovation, from the Chartists to the Suffragettes to the co-operative movement (Cox 2017), and this activism continues locally in many areas, as discussed below. In 2014, the government began a process of formal devolution of powers from Westminster to mayoral combined authorities at a subregional level. To date, five of England’s nine Mayoral authorities are in the North. However, these devolution arrangements are more akin to decentralisation than a real and serious commitment to a robust constitutional settlement for England (Raikes and Giovannini 2019).

Between 2001 and 2019,
every northern region
recorded turnouts below
the England average



Somewhat ironically, the design of English devolution has been led by central government, and has often stressed economic development more strongly than democratic innovation. It has been criticised for focussing on a “narrowly defined set of business interests with very little democratic scrutiny” (Tomaney and Pike 2020). The ‘deal-based’ approach to devolution that was developed by George Osborne has been criticised for a lack of transparency in negotiation processes; most deals were hammered out in relative secrecy. In addition, the nature of the deals varies between areas for reasons that are often unclear and arbitrary.

Scrutiny arrangements are also still in their infancy, with few genuine opportunities for citizen participation, either formally (through mechanisms such as citizen juries or assemblies) or informally (e.g. support for civil society and civic voice more broadly). The long-awaited Devolution and Recovery White Paper has now been delayed yet again, with a proposed publication date of 2021. And so, while 62 per cent of the North is covered by some form of devolution ‘deal’, devolution is very much an unfinished project. In the meantime, places across the North continue to face long-standing democratic challenges including low voter turnout and a lack of diversity in political leadership roles (such as metro mayors).

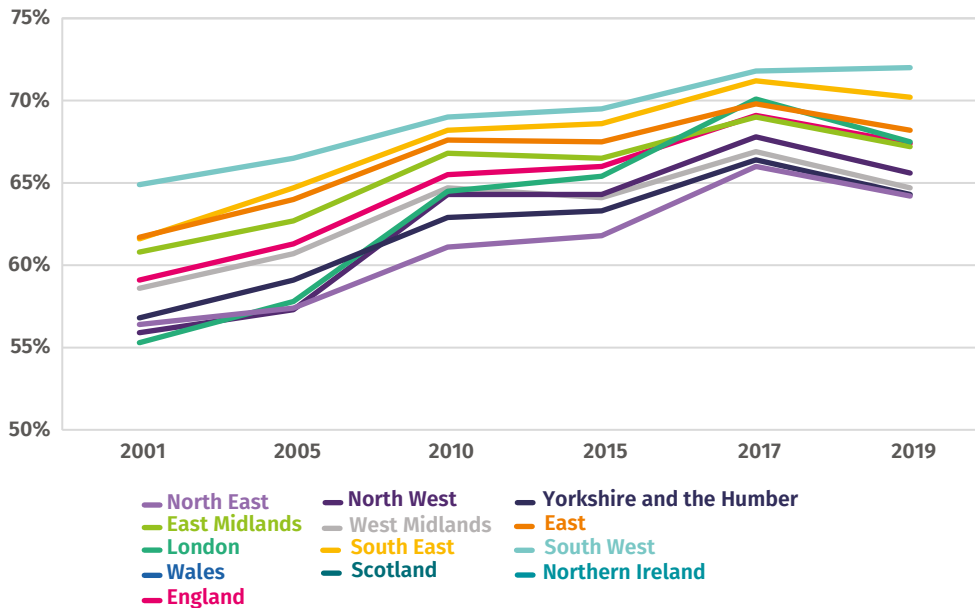
VOTING TRENDS IN THE NORTH

Differences in rates of voting between different income and age groups are well documented (Birch et al 2013), but geographic variations are also marked. The north of England has consistently recorded lower voter turnout than the South in general elections over the past two decades (figure 6.1). Between 2001 and 2019,

every northern region recorded turnouts below the England average, while turnout was higher than the average in the South East and South West. The highest turnout in recent years for *all* regions apart from the South West was in 2017, following the referendum on EU membership.

FIGURE 6.1: THE NORTH OF ENGLAND RECORDED LOWER TURNOUTS IN GENERAL ELECTIONS THAN THE SOUTH OF ENGLAND OVER THE LAST TWO DECADES

Voter turnout in general elections by English region 2001–19



Source: Morgan 2001, Mellows-Facer 2006, and Baker et al 2019

Note: Y axis begins at 50 per cent.

People vote in elections for many different reasons, and turnout should not be read as a proxy for engagement or political commitment (Stockemer 2016). But it does tell us two things; whether people were able to participate in the democratic process, and whether they felt, to some extent, that the effort of doing so was worthwhile.

Regional voting inequalities are problematic for democracy. A government may be *less* inclined to act in the interests of people who did not turn out, which in turn contributes to further disengagement and dissatisfaction. IPPR analysis in 2013 showed that people who did not vote in the 2010 general election faced cuts equivalent to 20 per cent of their annual household income, compared to 12 per cent for those who voted (Birch et al 2013). The three northern regions recorded the lowest turnout at the same election, and later experienced disproportionately negative impacts from austerity (Johns 2020).

Figure 6.2 shows local election turnout over the last two decades. The figures are lower overall than for general elections although they increase when general and local elections overlap; notably, north east England recorded a jump in turnout in the years around the referendum on a regional assembly (2004). Unfortunately, it is not fully possible to understand the relationship between overall local election turnout and the introduction of metro mayors outside of London, as this coincided with the 2017 general election. Overall local election turnout in the North, as with the rest of the UK, has remained relatively low over the past decade. Interestingly, London, which has the longest-established local assembly and mayoral structure in

England,¹³ has seen the highest levels of local election turnout for the same period, although more data would be required to be able to establish whether this was part of a longer-term trend.

FIGURE 6.2: WHERE LOCAL GOVERNMENT IS DISEMPOWERED IN ENGLAND, PEOPLE MAY BE LESS LIKELY TO PARTICIPATE IN LOCAL ELECTIONS

Voter turnout in local government elections by English region 2000–18



Source: LGA 2020

NORTHERNERS ARE LEVELLING UP FOR THEMSELVES

Voting in elections, however, is by no means the only way for people to influence decisions affecting their local area, and there is evidence that many northerners are contributing to their local communities and economies through civic engagement. Research has shown that across the North, there are more than 42,000 voluntary and community organisations, the majority of which have a turnover of less than £50,000 per annum. They employ nearly 250,000 FTE employees and work with nearly 1m volunteers, who generate more than 67million hours of work (Chapman et al 2020).

Since the start of the pandemic, 4,000 ‘Covid mutual aid’ groups have sprung up across the UK (O’Dwyer 2020). Local authorities have also coordinated huge numbers of volunteers and helpers (individuals and businesses) within their areas. For example, by the start of lockdown in March, Newcastle City Council’s CityLife Line had *already* registered nearly 1,500 volunteers and 200 partner organisations, while Northumberland Communities Together had signed up over 1,100 helpers and made or received over 17,000 calls to provide help and support for residents (Northumberland County Council 2020).

Contrary to anxieties about the erosion of the UK’s social fabric, it’s clear that many people *do* care deeply about their communities and contribute their time and resources to supporting them. In addition, where formal structures of

13 The first mayoral election in London was held in 2000 and every four years since.

power and decision making feel distant, and despite the constraints of austerity, northerners are 'levelling up' for themselves.

Barnsley's Ward Alliances

Barnsley Metropolitan Borough Council's 'Ward Alliance' model seeks to involve communities in decision-making process by developing their own local projects. Budgets of around £10,000 are allocated to groups of volunteers to plan, prioritise, and allocate to a range of projects. Benefits of the scheme include empowering local people to improve their communities, and a reduction in social isolation. This is just one example of 'community devolution' which has been successful locally (BMBC 2020).

This community orientation provides a good foundation for initiatives to give communities a greater say in local decision-making. Strong and systematic devolution, that decentralises major decision making and backs up powers with substantial budgets, can strengthen accountability and as a result, can lead to more progressive investment decisions (Raikes 2020). This offers a clear link between governance and quality of life in a place. Indeed, devolution re-imagined as an ambitious project to strengthen the UK's democracy could help to support a revival of democratic engagement in the UK more generally. If people can see the impact of politics on their daily lives, this may support higher rates of democratic engagement.

DIVERSITY IN NORTHERN LEADERSHIP

General and local elections are not the only opportunities to vote in the north of England. The latest round of devolution deals means that from 2021, 62 per cent of the region will have the opportunity to vote for a metro mayor. However, to date the region's mayors – and to a lesser extent its local councillors – do not reflect the diversity of the population. This will impact on democratic engagement and on the nature of decision-making. Drawing more people into an inclusive democratic future could create the foundations of a stronger democracy in the North (Giovannini 2015).

Diversity in leadership helps to build and sustain an effective and credible democracy. Political institutions in the north of England should ensure that they meet the needs of the communities they seek to serve by reflecting, understanding, and acting upon their respective economic, ethnic, and social differences (Didi 2020).

To date, all of the North's elected metro mayors are white men (as were the majority of candidates, and indeed the entire field in the 2019 race in the North of Tyne). This is despite a major contribution to civic life by women and minority ethnic communities (Bazeley and Culhane 2019). Of course, women are not absent from key leadership roles. For example, Councillor Susan Hinchcliffe currently leads the West Yorkshire Combined Authority, while Ros Jones and Norma Redfearn are among the six directly elected (excluding metro mayors) in the North and five of the region's twelve Police and Crime Commissioners are women. And male leaders recognise the importance of a better gender balance. The North's metro mayors have committed to using their position to promote and strengthen the role of women within their organisations.¹⁴

¹⁴ For example, the One Day initiative in Liverpool city region where women have set out their response to the city region's Industrial Strategy, a project actively supported by Steve Rotheram (see: <https://www.liverpoolcityregion-ca.gov.uk/wp-content/uploads/One-Day.pdf>). In addition, the Diva Manc project in Greater Manchester, also supported by the metro mayor, Andy Burnham.

To some extent the profile of northern metro mayors reflects the lack of equal gender representation among local authority councillors in the region. These effectively provide a 'pipeline' for senior elected roles in local government. Only three of the North's 75 local councils have achieved a 50/50 gender balance, and across the region 62 per cent of local councillors are men (authors' analysis of Fawcett Society 2019).¹⁵

A complex range of factors prevent women from seeking elected office, or from progressing to senior positions once elected. Encouraging women to stand for public office in the first place is challenging due to the time commitment required, the public profile and lack of family-friendly working practices, as well as entrenched cultures that mean men are more likely to get and seek promotion (McNeil, Roberts, and Snelling 2017; Maguire 2018). In 2018, only 20 councils had a maternity policy for councillors in senior cabinet-level roles, and just 7 per cent for ordinary councillor roles (LGA 2018). Improvements to these practical and cultural barriers are needed across the UK, but in the North, where devolution is progressing, they could make a marked difference to the diversity of political leadership.

Greater diversity in the ethnic and religious background of elected representatives, as well as a wider range of socioeconomic backgrounds, sexual orientations, gender identities, disabilities and ages (including dedicated elected bodies such as a Youth Council of the North) would all help to diversify decision-making. One route towards progress would be the publication of data on the demographics of local councillors (Kaur 2020).

BUILDING TRUST AND AGENCY IN THE NORTH

Civic engagement and democratic participation are inextricably linked to the social and economic issues discussed in previous chapters. People get involved in politics and civic action when they believe they can make a difference. They are more likely to disengage when they cannot see a link between politics, and their lives and communities. This may not prevent them from being proactive in their communities, for example through volunteering; but if few elected representatives look or sound like you, being an elected representative can seem impossible or uninviting.

Research shows that in general, women, young people, and those on low incomes are less likely to trust politicians and government (John Smith Centre and IPPR 2020). All these groups – as shown by the analysis in chapters 2–5 of this report – are experiencing *lower* rates of prosperity and wellbeing within our current economic framework. In contrast, people with incomes above £30,000 per annum tend to have higher levels of trust (ibid), suggesting a correlation between political trust and the likelihood of benefiting from the way your local economy works.

Trust in democratic systems and institutions in the UK is considered to be relatively low by international standards (Edelman 2020), and distrust relates closely to policy agendas including austerity or cuts to local government. Factors that lead to mistrust in politics include a perception that social mobility is limited, dissatisfaction with public services such as transportation, a view that the government treats minorities unfairly, dissatisfaction with welfare benefits, and a feeling of 'disconnection' from one's neighbourhood (OECD 2019).

Further and better devolution could help to build engagement. Local leaders are of necessity closer to the communities they represent and therefore have the ability to take decisions that reflect regional insight and priorities. It should

¹⁵ Women are slightly better represented among the North's police and crime commissioners; five out of 12 are female.

also, in theory at least, increase transparency and accountability to citizens. The devolution of funding streams including but not limited to the proposed shared prosperity fund (SPF) could provide a focus for decision-making at the local or combined authority level that can be used in a way which has a palpable effect on people's lives. However, this must be matched by levels of investment and funding conditions that allow local leaders to use their powers to make a tangible difference. Subsequently, the government's commitment in the comprehensive spending review to at least match receipts from EU structural funds to the tune of £1.5 billion is good news, but this funding should also be devolved to maximise its impact and local accountability (HM Treasury 2020).

Coupled with investment on a sufficient scale, this could help to increase trust – if outcomes match clear local priorities. The shared prosperity fund will replace European structural funding, which had a specific remit of reducing inequalities; the government has pledged that the latter will also be a priority for the SPF (Brien 2020; HM Treasury 2020). In this way, it has the potential to be especially close to voters and communities in England's regions.

7.

CONCLUSION:

BUILDING AN ECONOMY THAT WORKS FOR PEOPLE

In this year's *State of the North*, we have explored the state of inequalities between people and places in the context of Covid-19, and set out a framework of key policy tests for any future programme of regional 'levelling up'. We propose that any attempt to 'level up' England's nations and regions must actively address the persistent regional inequalities which hold people and places back. The challenge is not simply to 'build back better', but to build better now. This can only be done by raising standards, expanding opportunities, and devolving power from the centre.

The challenges of Covid-19 as well as the impact of Brexit and the climate emergency, will require a re-think of regional economic policy to date. As this report has made clear, the 'shifting sands' of the economic context means that the North must 'build back' from a more challenging place than other parts of England.

As the pandemic has shown, quick and effective responses demand a place-based approach led by locally elected representatives who understand the contexts and complexities, and can coordinate local partners and resources to respond at speed. This is vital to the North's recovery.

However, it *also* needs a more robust and accountable form of devolved power than England has enjoyed in well over a century. This must go much further than a system of delegated budgets with reporting to central government departments. We need both deeper and broader devolution for England in the short-term, along with a much wider constitutional debate about the future of democracy in a post-Brexit UK.

The current political and economic context is characterised by uncertainty and volatility, and this is arguably a bad time for setting rigid targets and firm timeframes. But it is a good time for ambition, and for a bold account of what needs to happen if the economy of the north of England is to support a good life for people in the North. In this final chapter, we propose the following 'tests' to help provide definition and accountability for initiatives that seek to rebalance or 'level up' the regions of England and the UK. These are not intended to be exhaustive but focus particularly on some of the immediate challenges presented by Covid-19, particularly the impact on employment, skills and health.



Test 1 – A fairer North: A productive, low carbon economy that raises living standards for all.

We will know we are making progress when the following benchmarks have been met.

- A reduction in the productivity gap (as measured by GVA per hour worked) between the North and the English average with the aim of achieving parity.

Ideally, the strongest growth should be in local economies nearer the bottom of the current distribution to help narrow economic inequalities more quickly.

- A stronger link between growth in productivity and growth in real median wages, ie between the economic outputs of work and the reward felt by the workers who produce these outputs. The share of income that goes to workers (the ‘wage share of income’) should grow consistently in the next five-10 years at a faster rate than overall GVA growth, heading towards 60 percent of economic outputs.
- A reduction in carbon intensity (as measured by ktCO2 per £ of GVA) in all three regions in the North, and a shared commitment to achieving a net zero correlation by 2050 at the latest. All economic interventions should consider and appraise their environmental impact.

Test 2 – Better work, health, and pay: Decent work and wages for people in the North which keep pace with the cost of living and healthier, longer lives.

We will know we are making progress when the following benchmarks have been met.

- A higher average wage where everyone in the North is paid at least the level of the real living wage per hour.
- A reduction in the difference between the median wage level in different places. Specifically, the gap between the median wage levels in the three northern regions and the English median wage level should be reduced by at least 50 per cent over the next business cycle. As with test 1 above, the fastest wage growth should be in the local economies which currently have the lowest median wage levels.
- A reduction in the gender pay gap in the North to the national rate across all major occupational groups, and a halving of the ethnicity pay gap in all parts of the North.
- An increase in long-term real wage growth, with wages increases that are *greater* than the rate of inflation. Wage growth should also *exceed* overall growth in regional and national economic output, as measured by total GVA.
- An increase in healthy life expectancy (HLE) by 3.9 per cent or more in all northern local authority areas (this is the equivalent of a 2.5 year increase in each area HLE rate).

Test 3 – A jobs-led recovery: Low unemployment, greater access to employment opportunities, and a reduction in child poverty

We will know we are making progress when the following benchmarks have been met.

- A substantial reduction in unemployment as the economy recovers post-pandemic. This reduction should be felt evenly around the North, with the regional rate stabilising at a level *equal* to the English one. Total unemployment should fall below 5 per cent by the end of this parliament.
- Particularly harsh impacts of the Covid-19 crisis on the employment rates of particular places, demographic groups and/or sectors (‘scarring’) should *not* be observable in the longer term.
- An increase in jobs density across the North, with more people in employment and better access to employment opportunities. The jobs density rate in the North should be *equal* to that for England as a whole by the end of this parliament, and inequalities in jobs density rates should *fall* year on year within the region.

- A rise in the rate of qualification at NVQ level 3 and above so that rates in the North match those for the rest of England outside London by the end of this parliament.
- A narrowing of the gap between the percentage of children living in relative poverty after housing costs in the north of England and the rest of England outside London to one percentage point, *and* a reversal of the trend of rising child poverty that has taken place since 2013.



Test 4 – An empowered North: Better democratic participation, representation, and trust in local and national decision-making.

- An increase in voter turnout in the North to match or exceed the English average, and an increased turnout in local and mayoral elections to match the trends towards higher turnout in London.
- The implementation of a devolution settlement for all parts of the North and the formal inclusion of participatory democracy tools to inform the work of combined authorities. This should be underpinned by a clear framework for English devolution in the forthcoming devolution and recovery white paper.
- By 2030, at least 80 per cent of councils in the North should have achieved a 50:50 gender balance among councillors, and half of candidates for metro mayoral positions should be women.
- The forthcoming shared prosperity fund should be devolved to combined and local authorities.
- An end to the policy of austerity and the development of a fair funding formula to fund the work of local authorities.

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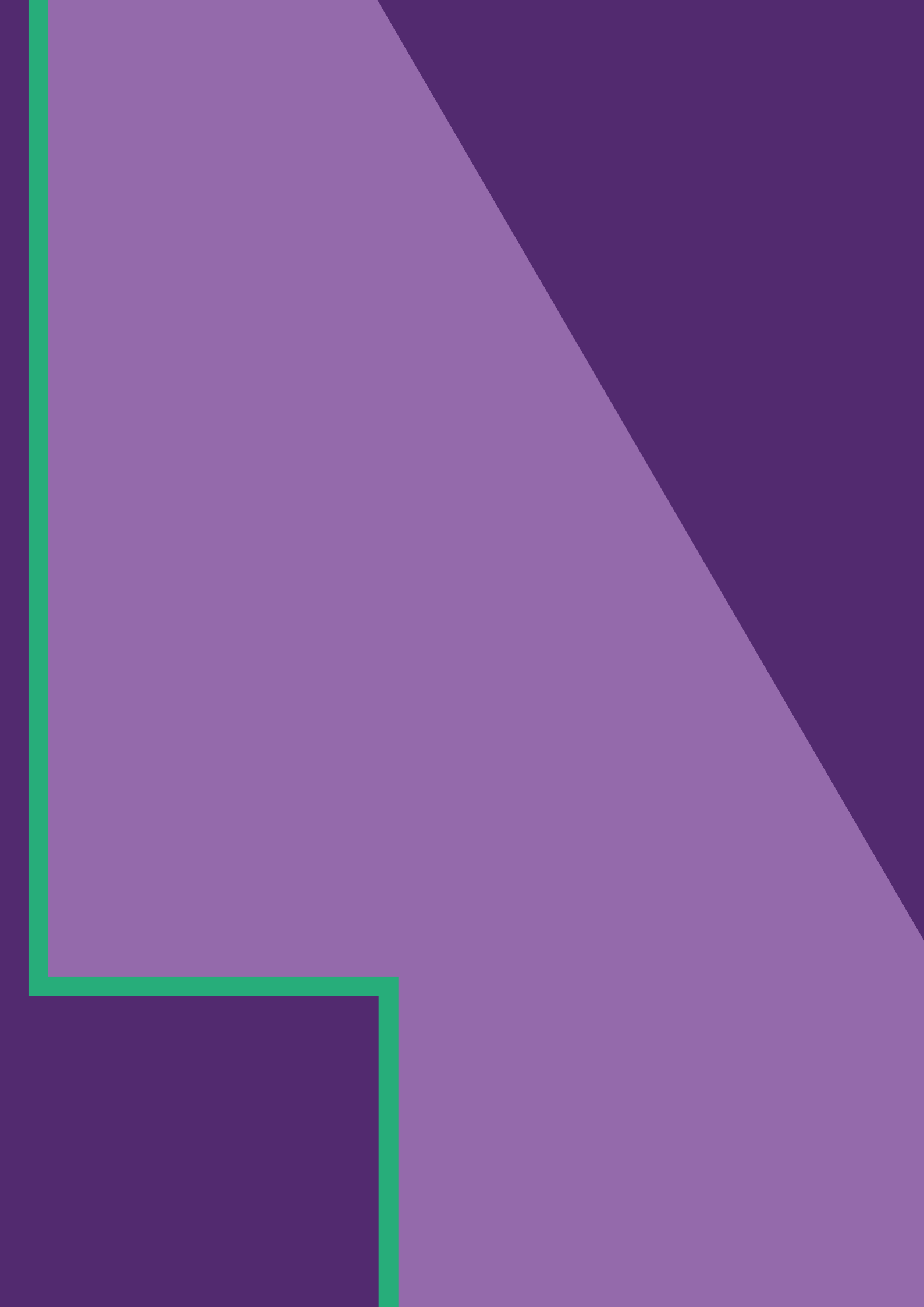
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