Brexit, devolution and economic development in ‘left-behind’ regions

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Introduction

The Brexit vote in the UK, according to Andrés Rodríguez-Pose (2018), is an instance of the revenge of the ‘places that don’t matter’. This expression of discontent from places at the sharp end of rising social and spatial inequalities has fostered the rapid rise of populism that is challenging the hegemony of neoliberal capitalism and liberal democracy. This paper considers the problems of these so-called ‘left-behind’ places – typically former industrial regions. Such places figured prominently not just among those that voted leave in the Brexit referendum in the UK, but also among those who voted for Donald Trump in the 2016 US presidential elections and for Marine Le Pen in 2017 in France in their respective presidential elections. In this context, this paper’s aims are fourfold. First, we outline the political economy of ‘left-behind’ regions. Second, we offer a critical account of recent efforts to ‘regenerate’ deindustrialised regions. Third, we describe new policy prescriptions for ‘left-behind’ regions attracting the attention of policymakers. Finally, the politics of local and regional economic development are considered, including the kinds of institutions are required to affect a new economic future in such disadvantaged places.

The regional political economy of deindustrialisation

Beatty and Fothergill (2018) estimate that 16 million people live in the former industrial regions of the UK – almost one quarter of the national population. While these regions have shared in the rise in employment in recent years, growth rates in London and other cities have been three times faster. Despite prolonged and far-reaching deindustrialisation, these places still have a higher than national average share of industrial jobs, lack white-collar and graduate-level jobs, have lower than average pay and employment rates, are more dependent on in-work and especially incapacity benefits, and have ageing populations. Headline unemployment figures provide a poor measure of real economic conditions in these places. Considering their high dependence upon incapacity benefits paid to those classified as unable to seek work, Beatty and Fothergill estimate the ‘real’ unemployment rates in such places to be 7.5% of the working age population in spring 2017.

Educational disadvantage is concentrated in left-behind places (Education Policy Institute, 2018). This disadvantage takes complex and varied forms. For instance, the North East region consistently has amongst the best primary school results in the country, but the lowest average adult incomes (Children’s Commissioner for England, 2018). In addition, left-behind regions experience disproportionate levels of premature mortality (Plümper et al. 2018). Mordechai et al. (2018) have identified higher opioid prescription rates in the north of England and in areas of greater social deprivation. The highest incidence of relative urban decline is primarily located in Northern England (Pike et al. ...)
2016). Such places are characterised by lower rates of net in-migration of economically active age groups, lower rates of employment growth in the decade to 2008, and a higher rate of contraction following the economic crisis and downturn in 2009-2012. They have substantially higher rates of poverty measured by the unadjusted means-tested benefits rate. The factors most strongly associated with relative decline in the UK are skill levels, industrial history and location at city, regional and national scales. City size and the reduced presence of consumer services in places that are over-shadowed by larger neighbours are key differentiating factors between places in relative decline. Some places with weak economies and lower value housing markets experience both selective out-migration of higher educated people and selective in-migration of disadvantaged, often unwell, people with high levels of social need (O’Connor, 2017).

Former industrial regions have presented a persistent problem for public policy across the developed world for several decades. While the rapid decline or disappearance of employment in traditional industries has occurred across North America and Europe, the scale of these changes has been especially marked in the UK and adds to the urgency of the issue. The UK’s ‘productivity puzzle’ continues to vex policymakers (Haldane, 2017). There is a geography to this; McCann (2016) shows that regions outside of London and the South have productivity levels akin to poorer regions in Central and Eastern Europe and southern regions in the United States. Deindustrialisation has underpinned the long-term growth of regional inequalities in the UK (Tomlinson, 2016). Such disparities have been exacerbated more recently by several geographically uneven trends, including skill-biased technical change which has disadvantaged those regions with low educational attainment; trade shocks arising from greater international integration of markets (Sandbu, 2016); and the rise of ‘residential capitalism’ in which economic growth is based on appreciating assets values (Ryan-Collins, et al. 2017). Left-behind places typically are the wrong side of such developments.

Former industrial regions have been subject to waves of policy innovation and intervention. Under the Thatcher and Major governments, priorities included, first, providing financial and regulatory incentives to attract international manufacturing investment to the former industrial regions, enabled by the UK’s membership of the Single European Market. And, second, encouraging entrepreneurship through the promotion of enterprise based upon self-employment and business start-ups. The legacies of inward investment policy include the major industrial complexes built up by Nissan in Sunderland and Toyota in Derby. But many of these investments proved fragile; LG in Newport and Siemens on Tyneside withdrew their investments shortly after their high-profile openings. The fragility of such branch plant economies is long-established (Pike, et al. 2017). Stirrings of economic nationalism and even ‘de-globalisation’, have rendered strategies based upon the continued attraction of flows mobile manufacturing investment more difficult for UK regions, especially in the uncertain context of Brexit and future trading relations. Enterprise policy typically stimulated unsustainable market entry by short-lived businesses, displacing incumbents (Storey et al. 2008), and encouraged ‘reluctant entrepreneurs’ into starting low-value service enterprises (Turner 2003). While rising productivity means existing employers are likely to shed workers to remain competitive; indeed, some consider the remaining jobs in ‘left-behind’ places especially vulnerable to automation (Centre for Cities, 2018).

In this context, there has been a search for new approaches to economic development. Currently, a powerful orthodoxy suggests that cities offer productivity and growth premiums because they generate
agglomeration economies through their scale, density and diversity. In this way, London acts as the dynamo that powers the UK economy, through its financial, digital and knowledge-intensive business services (KIBS) and provides an economic development model to which other places should aspire. The recent growth of Manchester, based on the expansion of services and property development, has been presented as the model for other city-regions (Moran et al., 2018).

Public policy now aims to facilitate the further growth of large cities – typically by easing planning restrictions to allow more development. Recently, city-centre regeneration has acted as a proxy for industrial strategy (Berry, 2018). The Northern Powerhouse, for instance, operates primarily as a brand for the marketing of Northern England for investment in residential and commercial real estate, infrastructure, and, to a lesser extent, advanced manufacturing, R&D, and culture (Lee, 2017). This development model lies behind the recent push to create ‘metro-mayors’ in city-regions as the government’s preferred form of devolution based upon matching decision-making with ‘functional economic areas’ (Moran et al., 2018). The implications of this strategy for former mill towns, mining villages, coastal and rural settlements have been ambiguous at best. Widening social and spatial inequalities between and within cities and regions are the accepted consequence of this approach and, for some, are the sign of a dynamic rather than lagging economy (Glaeser, 2013). Such interpretations underline views that see efforts to revive lagging industrial regions as having failed and being counterproductive; better to enable migration to London (or other large cities) where more productive jobs are plentiful (e.g. Leunig, 2008).

The limits of ‘regeneration’

Reeves (2018: 30) has cogently summarised the limits of recent policies: “[l]Industrial strategy has tended to concentrate on cities as engines of growth, on property development, technological innovation and the high-productivity trading sectors. This approach to economic growth neglects middle- and low-paid workers in the low-productivity, non-traded sectors, as well as the civic infrastructure required to develop research and innovation across the whole economy. It also tends to exclude rural areas and towns from the very wealth-creating activity it is promoting.”

McCann (2016) too has shown that there is little evidence that other regions benefit from London’s growth. Instead, fortuitously capturing the benefits of globalisation through its specialisation in financial services, the attraction of multinational companies, foreign investment and international migrants, and benefitting from rising asset values, London has effectively ‘de-coupled’ itself from the rest of the UK economy (see also Beatty and Fothergill, 2018). Very little of London’s growth has been driven by migration from elsewhere in the UK (McCann, 2016).

Similarly, there is little evidence that faster-growing cities in the North are contributing to the growth of neighbouring places. The economic performance of cities is crucially determined by the region in which they are located. Cities in southern England and Scotland have tended to grow above the national average, while cities in northern England grew more slowly (McCann, 2016). Although the gap between major cities and their regional hinterlands has widened, much of the growth, even in relative success stories such as Manchester, has been in low productivity, low wage sectors rather than KIBS. Moreover, with their greater social needs and higher costs of service provision, local authorities in ‘left-behind’ places have borne the brunt of austerity since 2010 (Bounds, 2017).

The appreciation of asset values – principally land and housing – is major driver of the accumulation of wealth in London and the south east of England. Allocating land for residential development and
ensuring sites are properly supplied with infrastructure is perhaps the greatest policy challenge in southern England, which is experiencing a severe crisis of housing affordability. Capturing some of the gains of rising land values to fund the construction of infrastructure has emerged as the focus for urban development policy in London. UK planning policy is mainly focused on increasing the supply of housing in places where demand is high, but where local authorities are reluctant to give permission for development. But housing and land markets in left-behind places, outside the major city centres, are in a very different position. In weaker markets, housebuilding is constrained by an absence of development and mortgage finance, complex land viability issues including a surplus of brownfield sites, lack of subsidies for remediation and negative reputations and stigma. These conditions highlight the limits of ‘national’ planning reforms as a means of regeneration in left-behind places (McGuinness, et al. 2018).

Developing ‘left-behind’ places

Geographical inequalities continue to increase, generating social, political and economic costs. Recent studies from the Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF), among others, suggests that inequality is the cause of slow growth rather than its outcome (Cigano, 2014; IMF, 2017; Ostry et al., 2016; see also Stiglitz, 2015). In the US, the Brookings Institution has argued that places disconnected from economic opportunity “may hold back collective growth and threaten the social fabric on which a healthy democracy depends” (Berube and Murray, 2018: 2). Growing urban and regional divides are one expression of this. But, ‘policy-makers’ continued faith in agglomeration and densely-developed cities as the route to economic development is being challenged by research suggesting that large cities are not always the most dynamic engines of growth (Dijkstra et al., 2013). In the UK, the productivity growth of southern service-based cities has been modest, slowing any increases in national average productivity, despite higher levels of skills and the presence of KIBS. Some smaller and medium-sized cities have outperformed larger cities (Martin et al. 2018). Indeed, the OECD has cautioned against only focusing on the largest ‘core cities’, suggesting: “Larger cities create benefits, but as benefits grow, so do ‘agglomeration costs’ … costs and benefits increase in parallel, reducing the pull of larger cities … a well-connected ‘megaregion’ with rural areas and a network of smaller, but well-connected cities, could provide agglomeration benefits while limiting the costs from congestion and densification” (OECD, 2018: 86).

Given this geographical differentiation of economic conditions, place-based approaches offer a novel approach to local and regional economic development. Such approaches aim to release untapped potential in economically lagging places by empowering local stakeholders to maximise their skills, talent and capabilities in ways that enhance economic performance and potential (Barca et al. 2012).

Such strategies tailor their mix of policies to local conditions, improving opportunities for citizens and workers wherever they live through a combination of targeted development strategies and institutional and capability improvements (Immarino et al., 2018). The World Bank calls for regions to act as the architects and implementers of their own programmes to address their locally unique capabilities and challenges, while acknowledging this will require more intensive, on-the-ground support, including technical assistance and capacity building at the regional and the local level (Farole et al, 2018: 11). Conventional approaches to economic development that focus solely on increasing economic growth have had limited impact in ‘left-behind’ places. Economic growth has typically not translated into rising living standards, with households which have seen declining real incomes and people trapped in low value
and poorly paid jobs that sustain in-work poverty, suggesting the need for more rounded forms of development that focus on human wellbeing (Stiglitz et al., 2010).

The pursuit of major inward investments, development of KIBS or advanced manufacturing are unlikely to create inclusive growth in 'left-behind' places (Lee, 2018). Low-paid and precarious forms of work in mundane sectors of the economy – what Reeves (2018) calls the 'everyday economy' – have been neglected in debates about local industrial strategy. But these sectors are present in all local and regional economies and are disproportionately important in 'left-behind' places. Such sectors typically comprise the 'foundational economy' that are immobile and relatively protected from competition but provide the social and material infrastructure of civilised life that everyone needs to access irrespective of income, including water, gas electricity, housing, health, care, and education (Foundational Economy Collective, 2018).

Rather than competing for the next big thing against already strong and larger urban economies, ‘left-behind’ regions would be better served by policies aimed at securing their foundational economies. Public investments in high quality infrastructures are likely to be important in places where the private sector is weak, especially if these are aimed at addressing underlying social problems such as high levels of morbidity or low levels of educational attainment. Strategies might include asset-based forms community development that aim to increase and broaden capital ownership to anchor jobs locally and strategies of ‘remunicipalisation’ to take local infrastructure back into local control (CLES, 2017; Cumbers, 2016). The Industrial Strategy Commission (2017) has proposed the notion of Universal Basic Infrastructure to ensure appropriate provision of both the hard (physical and natural capital) and soft (human capital-building) infrastructures that increase the productive capacity of all people and places. The Joseph Rowntree Foundation, (see Crisp et al, 2018), for instance, has shown how reliable and affordable local bus services are crucial to the economic development of left-behind areas, and emphasised the need for institutional and regulatory reform to support improvements in provision. Easing austerity and fiscal stress is a precursor to the adoption of these approaches and reinstatement of local governments and their partners to lead, formulate and implement fresh thinking about local and regional development. Complementary demand-side measures can also have positive impacts upon job creation and more inclusive forms of growth (Pike et al. 2017).

The politics of local and regional economic development

Deindustrialised places in the UK experience concentrated social and economic disadvantage, and this has profound political consequences, as the geography of the Brexit vote revealed. Similar problems are observable in the US, EU and elsewhere. In the UK, existing, top-down policy frameworks have largely failed ‘left-behind’ regions and there is an urgent need for new thinking on future development strategies. Place-based approaches can aim at (re)building and enhancing the everyday and foundational economy, the improvement of basic infrastructures, accumulation of locally-owned assets and the stimulation of demand-side policies. Such approaches will require more participatory, multi-stakeholder and deliberative models of decision-making because they are based on identifying and responding to diverse local and regional conditions. Consequently, place-based forms of economic development require strengthened institutional frameworks. Tackling the entrenched problems of ‘left-behind’ places will require more imaginative and flexible geographies than the centrally imposed approach to devolution which has fetishised city-regions and implanted metro-mayors (Tomaney, 2016). Such institutional arrangements need to respond to emergent international patterns and dynamics of geographical
change, including urban archipelagos, patchworks, and mosaics rather than simple binary cores and peripheries. The new theories of urban and regional development suggest the importance of the regional scale in addressing links between dynamic and large cities and the ‘left behind’ within urban hinterlands, smaller cities, towns and coastal and rural areas (OECD, 2017).

Tackling the problems of the left-behind places requires a new politics of redistribution. Wealth taxes are likely to provide the necessary resources. Britain’s wealth is increasingly tied up in land and property. The value of the UK’s housing stock was £7.14 trillion in 2017, but 64% of the UK’s housing wealth is located in London and the South East. Moreover, 87% of the growth in the value of housing over the 10 years to 2017 occurred there (Savills, 2018). Quantitative easing and bank bailouts have underpinned asset appreciation, and this further benefitted London and the south (Gordon, 2016). A land value tax, which targets immobile assets and unearned gains in wealth, although politically difficult to achieve, would lie at the heart of efforts to achieve more regionally balanced economy (Ryan-Collins, et al. 2017).

Allowing the continued and ‘managed decline’ of left-behind communities or exhorting their residents to migrate (Leunig, 2008) are a political and moral dead end. People have a low propensity to move out of such places for a range understandable reasons, including the difficulties of relocating from low value and weak to high value and strong housing markets and the social pull of valued community ties (Rodriguez-Pose, 2018; Sandbu, 2016). Indeed, such strong social bonds are one of the defining characteristics of former industrial regions and the loss of identity associated the disappearance of old ways of life continues to shape economic, social, political and cultural attitudes and behaviours in such places (Warren, 2018). This suggests the case for a new ‘economics of belonging’ (Sandbu, 2018) that recognises the value of these relationships and builds upon them to create new forms of economic activity.

Endnotes

1. Jennings and Stoker (2016) identify a distinction between ‘two Englands’ consisting of ‘cosmopolitan’ and ‘backwater’ places. Their focus is on places in southern England, symbolised by the divide between cosmopolitan Cambridge and the backwater, former seaside resort, Clacton. The focus here is on former industrial regions.

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