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Regional Contrasts

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Introduction

Up to the mid 1970s, regional, and other forms of inequality, tended to diminish. Over the last 25 years, these inequalities have increased (MacKay 2002a). It is no coincidence that the different forms of inequality increase during a period of lower growth and against the background of a more difficult labour market. Regional and other forms of inequality tended to decline in the "Golden Age" of growth and full employment, but increased in the years when growth was less reliable and full employment became a distant memory.

This paper claims that regional inequality has increased notably over the last 25 years; all regions outside the Inner Region Core (London, the South East and East) having lost ground to the Inner Region Core (IRC); and shows that decline has been particularly marked in Wales and Northern England. A better spatial balance would reduce inflationary pressure, add to national output and improve the quality of life. The paper also suggests that improvement in well being could be particularly marked for those who live in the most prosperous, but high cost and congested parts of the country.

The three most prosperous regions are London, the South East and East. Together they comprise the IRC and account for more than one third of the British population. The three least prosperous regions in Britain are Wales, the North East and North West, accounting for more than one fifth of the British population.

GDP per head, in the United Kingdom, improved by an average of 2.5% a year

in the "Golden Age", 1950-73, but by only 1.7% a year in between 1973-2000. In Maddison's 16 capitalist economies, the average GDP per head improvement fell from 3.6% a year in the "Golden Age" to only 1.9% in the years 1973-2000. Active relocation of industry (strong regional policy) was one of the early victims of the oil price shock and lower growth. *"People no longer speak seriously about the spatial redistribution of production ... almost every country silently gives up its regional policy ... a more balanced regional development [is denounced] as a luxury belonging to an earlier period of economic growth."* (Läpple, 1985, p.52).

Between 1975 and 1995, the real value of UK regional aid was reduced to less than one ninth of its 1975 level. Control over the location of industrial expansion was imperceptible, and hence formally abandoned in 1981.

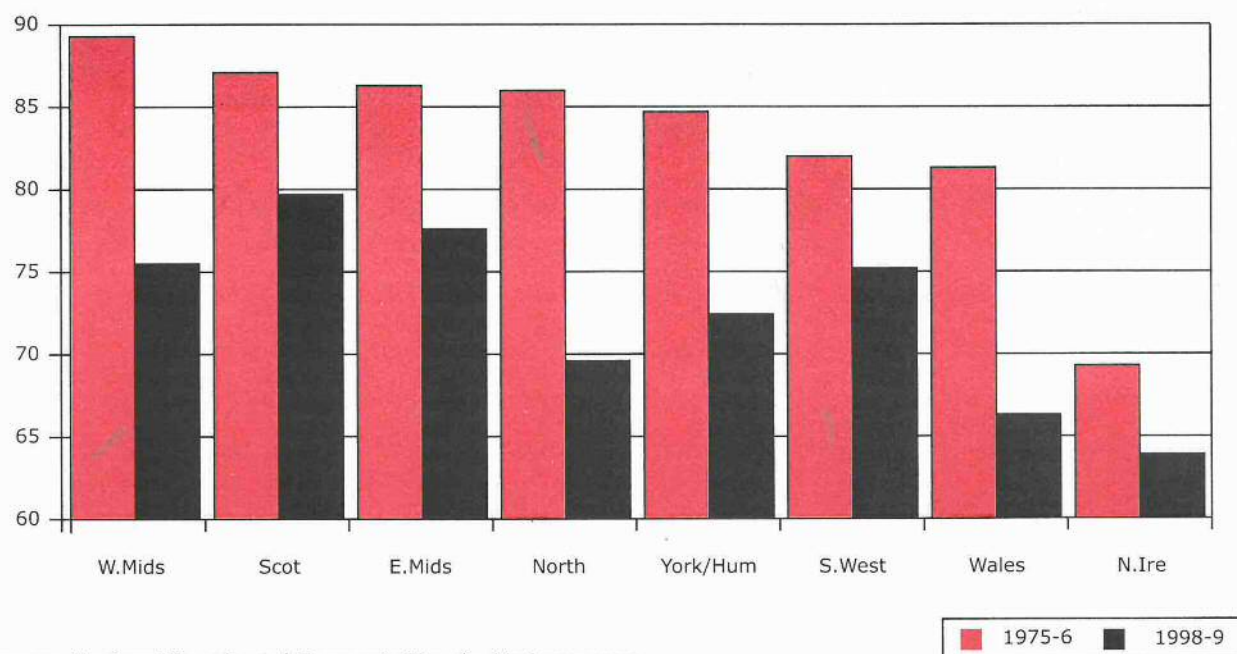
Regional Contrasts – Discouraged Workers

Figure 1 illustrates how emphatic the concentration of prosperity on the

already prosperous regions has been in the last quarter of the twentieth century, and shows regional GDP per head as a percentage of GDP in the IRC for eight regions between 1975-76 and 1998-99. In the mid 1970s no British region had GDP levels lower than four-fifths of the IRC. By 1998-99, no British region outside the IRC had value-added levels as high as four-fifths of the IRC. In the North (North East plus North West), GDP per head fell from 86% of the IRC level in 1975-76 to only 70% in 1998-99. In Wales, the measure fell from 81% of the IRC level in 1975-76 to only 66% in 1998-99.

Value-added is distributed as factor incomes to people or organisations. Profits go to firms, but most value-added is income earned by those in employment or self-employment. A growing GDP gap between prosperous (IRC) and not so prosperous regions (Wales and North) would be expected to signal a substantial work gap and/or a substantial earnings gap. These would link to a growing regional divide in household incomes, to savings and

Figure 1 Regional Inequality – the Gap Grows.
Regional GDP per head as % of IRC, 1975-6 and 1998-9.



Source: Regional Trends and Economic Trends, Various years.

profit gaps, and to differential access to credit. Substantial income imbalance has implications for the spatial distribution of effective demand and for where new firms and new entrepreneurs emerge. In practice, by checking against a range of relevant series, the growing divergence between the prosperous IRC and Wales and North is substantial and striking. There is one significant exception and puzzle. The unemployment gap between IRC and Wales and North is now slight (rather less than in 1975-76), even though all other relevant indicators point to significant disparity – see Figure 2. A recent Regional Studies Association report (MacKay, 2002b) suggested that *'Speculation about the disappearance of traditional regional divides is based on deeply misleading [claimant] unemployment data'*, and that claimant unemployment *'seriously understates the true extent of joblessness across the economy as a whole and in the weaker regions in particular'*.

The puzzle of a minimal unemployment differential is indicated in Figure 2. In 2000, the male unemployment differential between IRC and Wales and North was less than 2%: but Wales and North had 16 jobs less per 100 men of working age. Unemployment data can be unreliable, and indeed are increasingly unreliable and prone to manipulation. Perversely, the more difficult the labour market, the less likely it is that those without work will be registered as unemployed. The greater the degree of individual labour market disadvantage (age, health, location, lack of qualifications), the more probable it is

that the person without work will be inactive rather than looking for work. Outside of unemployment, the most important component of non-work is permanent sickness. For any given level of incapacity in Wales and North there is a greater tendency to be registered as permanently sick, rather than being in work, or counted as unemployed. This is due, in large part, to lack of suitable jobs. Health, age and level of qualification are continuous variables. Poor health, extra years, or lack of qualifications do not necessarily mean that a worker cannot make a contribution. Along with being in the wrong location, they add notably to the risk of being declared redundant. For those identified as surplus to requirement, poor health, extra years, or lack of qualification add notably to problems in rediscovering work. In slack labour markets (as in much of Wales and North), where actual labour supply is well below potential labour supply, there are many discouraged workers, sickness becomes visible and the risks that connect to extra years are revealed. When people believe that jobs are not available to them in their labour market position, they are involuntarily excluded from the labour force.

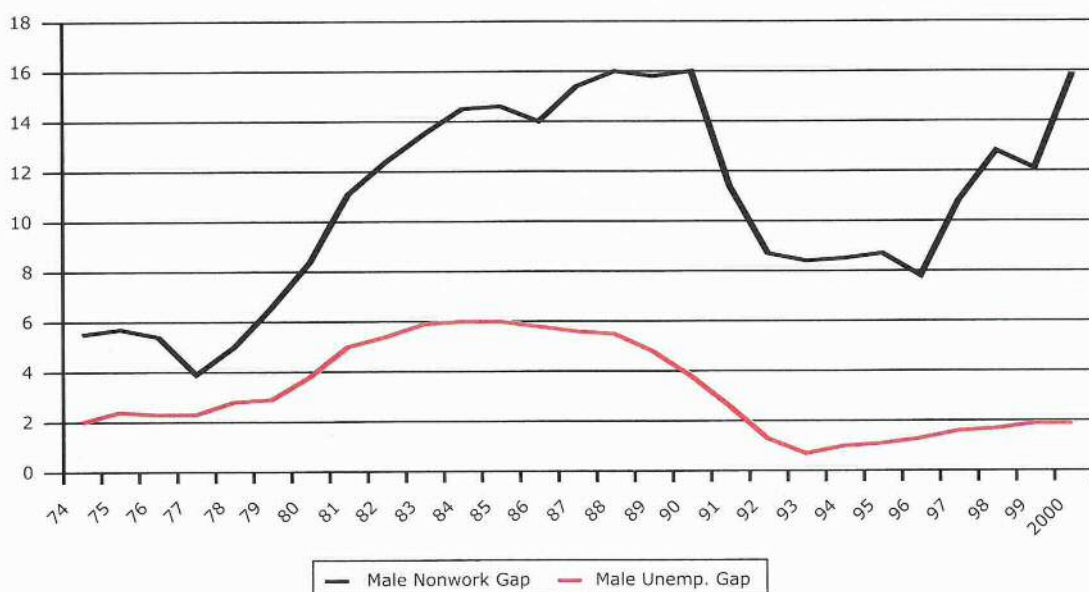
Regional inequality is not the only inequality that hurts. *'Bringing income distribution in from the cold'* becomes a possibility, Atkinson 1997, suggests. That possibility emerges because, from the mid 1970s, the shift to greater income inequality has been clear and substantial; was stronger in the UK than in even the USA; and has uncomfortable consequences for health, for education,

for crime and social stress within society; adding to unease, even among the rich and apparently comfortable.

In the UK, from the mid 1970s, real income increases were more generous the higher the income group. Real income increases failed to reach the lower levels. The concentration of improvement on the comfortable and even more strongly on the affluent has produced problems, with difficulties extending to education and health and associated loss of trust, community and cohesion.

There is interesting research that provides a link to the Rawls (1971) claim that inequalities that advance the incomes of the 'least advantaged' are consistent with justice, while inequalities that reduce the incomes of the 'have nots' are difficult to reconcile with justice as fairness. Rawls asks economists and citizens to recognise that poverty hurts and not just absolute poverty, for being poor by the standards of one's time and society is difficult. The literature on the relationship between income inequality and health suggests that relative poverty not only hurts, it kills (Atkinson, 1996; Marmot and Wilkinson 1999). In high-income countries, it is relative income, not absolute income that is the key to health and life span. What is important to health is where we are placed relative to others within society. Extremes of wealth and poverty are uncomfortable because they promote hierarchy and social distance. Social distance causes a loss of mutual and self-respect. Wilkinson (1996) claims that more

Figure 2 Unemployment and Nonwork gaps, 1974-2000. IRC rate less rate in Wales and North.



Source: Regional Trends, Employment Gazette, Labour Market Report, Various years

egalitarian societies are healthier because they are more socially cohesive. Distance between the poor and rich can lead to exclusion from society, destroying trust and social capital.

Regional Imbalance and Quality of Life

Slack labour markets (as in much of Wales and North) encourage withdrawal from the labour market. Labour supply – the employed, self-employed and unemployed, is not the potential labour supply. The number of discouraged workers, i.e. people of working age not included in the labour force, is sensitive to level of opportunity.

Active relocation of manufacturing drew to a close in the mid 1970s. In subsequent years, regional inequalities have intensified. Table 1 shows that by 1999, the weight of male jobs was 22% greater in the IRC than in Wales and the North, the weight of GDP was 45% greater, and the weight of male earnings 54% greater. As the work gap intensifies, so does the earning gap for those in work. As Table 1 illustrates the domination of the IRC is particularly marked for high-income earners, for human capital and also for Research and Development. In 1999, R&D expenditure shares were over two times higher in the IRC than in Wales and North: the weight of high-income earners was three times heavier. London and its dormitory regions have captured the science base and the trained human capital that are at the heart of New Labour's supply-side approach.

Does the increasing gap between the IRC and the rest (including Wales and the North) matter? Fear of inflation dominates macroeconomic policy. Given the way inflation is generated, a growing gap between a prosperous one-third (with supply constraints and strong

pressures to increase wages and prices) and a less prosperous two thirds (with spare capacity and lack of opportunity) is a problem. The greater the spatial disparity, the greater the inflationary tension at any given level of national demand. Interest rates which are the main policy instrument for control of inflation, treat the country as homogeneous, even though regions respond notably differently to demand increases. Inflation generated in tight labour markets (IRC) prompts interest rate increases which limit demand and output in regions where labour is under-used and under-developed.

A CBI Membership Survey (not published) claimed that 'delivery, service and sales costs are on average 20% higher in London and the South East than anywhere else in the country'. The CBI Survey, dating from 1991, emphasised that congestion costs were rapidly rising with congestion adversely affecting time keeping, absenteeism, productivity when at work, prices, health, and quality of life. The CBI Survey was concerned with the private sector and its ability to compete. Congestion is also hard on the public, as well as the private, purse, adding to the cost of providing public services of a reasonable standard. High cost in London and its commuting zone does not imply superior levels of service. Staff shortages in the public sector (in education, in health, in postal services) concentrate on the IRC and particularly London.

Research surveys suggest that the income required to maintain a given standard of living is 22% above the UK average in London. The high cost of housing ensures that the housing market is even beyond the reach of many in good, reasonably secure jobs. The discrepancy between starting salaries and property prices grows even wider. Housing costs in London are at

least 50% above the UK average. The difficult housing market forces many into longer journeys to work, posing a different set of problems. Transport costs for London commuters are 50% above the UK average. Hence, living and working in London is hard on the public purse, the private purse and the business budget. Within London, wealthy areas sit next to those blighted with serious poverty and deprivation. The high cost of living is a problem for those on or close to the minimum wage.

In 1972, the Economist suggested 'a new administrative capital for Britain ... north of the Trent ... [for] Queen, Parliament and civil service'. With 'Elizabetha' established, much more would follow. The Economist argued that the North of Britain needed the economic and social stimulus of a London. The South would be better without the inefficiency of a congested, central London.

The Economist proposal was too radical and imaginative to be considered other than tongue in cheek, but it had serious intent. London is the political, administrative, financial and corporate capital. The different sources of power interact to provide a dynamic for development that the north needs, but the south can accommodate, only with difficulty. The increasing concentration of people, jobs, earnings and research and development on the high cost and inflationary IRC is not the most obvious route to a supply-side miracle.

A different mindset is required. The success of the Commonwealth Games in Manchester shows that London is not the only possible location for the Olympic Games. All too often policy is adjusted without any thought or consideration for spatial impact. The research funding mechanism rewards universities according to research output. A competitive, winner-takes-

Table 1: Comparison of IRC (IRC) with Wales and North - Concentration Index¹

	1975			1999		
	IRC	Wales and North	Gap ²	IRC	Wales and North	Gap ²
Male Jobs	1.035	0.966	107%	1.096	0.895	122%
GDP	1.099	0.936	117%	1.210	0.833	145%
Male Earnings	1.098	0.945	116%	1.256	0.813	154%
Adults with Degrees				1.280	0.792	162%
R & D Expenditure				1.487	0.642	232%
High Income Earners				1.645	0.549	300%

Source: Regional Trends, Economic Trends.

Notes:

¹ Concentration Index = $\frac{\text{Share of GB Jobs etc}}{\text{Share of GB Population}}$

² IRC Index as a Percentage of Index for Wales and North.

most system concentrates resources. Research output is higher where there is proximity to private funding - in London and its surrounding regions. The science and research base is increasingly concentrated near London, where most of the important decisions are made. Instead of acting as a counterweight to the concentration of private capital, public funding follows private capital. There is no good reason to believe that research and education draw deep benefit from high cost, pressured locations. Decentralisation in France has encouraged the public and private sectors to develop the resources of provincial France with its labour, space and adequate road and rail infrastructure. Decentralisation could cut public expenditure, spread opportunity and support community. But Britain has no deep traditions that encourage decentralisation.

Conclusion

History suggests that regional economies and local communities be not entirely at the mercy of market forces. Redistribution of manufacturing expansion had a major impact in the years up to 1975, but little impact in later years. In the mid 1970s, regional differentials existed, but they were minor when compared to the strong contrasts that have emerged over the last 25 years (see Figure 1 and Table 1). Policies of regional redistribution can have and have had positive effects.

Regional inequalities are substantial. Claimant unemployment is an unreliable measure. This unreliability takes a consistent form that conceals the extent of regional inequality. The government

has claimed that it has started to push regional development higher up the agenda. Containing regional inequality will depend on considerably more than New Labour has provided. The science base and the trained human capital that are at the heart of New Labour's supply-side emphasis have already settled on London and its dormitory regions. London has cornered the market in top-paying jobs. High pay does not provide life styles to match or envy. The high cost of accommodation in London is a persistent and growing problem. The difficult housing market forces many into longer journeys to work, posing a different set of problems and costs. A policy of redistributing jobs, including government employment could have a beneficial effect on the prosperous regions. Diverting jobs and people from an overcrowded part of the country would ease congestion on the roads, reduce the pressure on housing stock and help rail commuters.

The question is, can New Labour be truly innovative and radical? Often the best songs are fashioned from old tunes. The 1944 Barlow Report provided a political, social and economic argument for redistribution of employment. It emphasised that the congestion problems of London and the South East, and the limited opportunities in other regions are two parts of the same problem. The Barlow analysis provided the rationale for regional policies that had real bite and real impact. The argument for redistribution is as strong today as it was in the 1940s. The differentials between regions now take different forms but they are just as problematic.

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