Continuing divergence after the crisis: long-term regional economic development in the United Kingdom

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This study examines the trends of regional economic development in the United Kingdom before, during, and after the economic crisis. The United Kingdom is historically characterised by persistent and significant regional economic disparities, which further grew during the global financial crisis and seem to remain stable at higher levels. Salient features of the economic spatial structure are the well-known North-South divide and, in parallel, London's dominance over the rest of the country (the 'London problem'). Our research is primarily descriptive. Specifically, it combines a literature review covering the latest relevant contributions and empirical data analysis. Based on important current policy initiatives, our analyses will also address the issue of a more spatially balanced development.

Keywords:
regional economic inequality, United Kingdom, global financial crisis, economic rebalancing

Introduction

From a socio-economic perspective, the United Kingdom (UK) is a relatively developed nation amongst the member states of the European Union (EU). According to Eurostat data, its GDP per capita was around 130 per cent of the EU average between 2000 and 2014, but it heavily deteriorated during and after the 2008 global financial crisis (from 146 to 127 per cent). Nowadays, even the most economically backward region (West Wales and the Valleys) reaches around 80 per cent of the EU average, while the leading region (Inner London West) is at more than 600 per cent (at the NUTS 2 level). The EU Regional Competitiveness Index (RCI) ranks four UK regions in the top 10 most competitive ones in the EU[1], and even the least competitive region, Northern Ireland, ranks 145 out of 262 (Annoni et al. 2017). The regional RCI variation in the UK is relatively high amongst the most developed EU countries, but this measure is moderate compared to South Eastern European countries, and even to France and Italy. Regional inequalities are historically high in the UK: they have been present since the period of industrial development in the

[1] London and regions covered by its commuting zone (rank 1); Berkshire, Buckinghamshire, and Oxfordshire (rank 2); Surrey, East and West Sussex (rank 5); and Hampshire and Isle of Wight (rank 10).

19th century, and deepened during and after several periods of recession, as well as in boom periods (Marshall 1990, Gardiner et al. 2013). The investigation of the spatial processes in the country allows us to draw important conclusions about sources and dynamics of economic disparities, providing useful lessons for other countries, as well.

Our study emphasises that the increasing extent of spatial inequalities across the country cause not only a 'regional' but also a 'national' problem (McCann 2016), which thus needs substantial attention from policymakers. There has long been a debate over the existence of a trade-off between spatial disparities and national growth in an economy, that is, whether policies aiming to reduce regional economic inequalities are efficient for the country as a whole (Martin 2008). The theoretical models of the New Economic Geography claim that uneven geographical development may create higher rates of national growth through various increasing returns effects stemming from the spatial agglomeration of economic activities (Gardiner et al. 2013). For this reason, different courses of economic policy placed different emphasis on promoting regionally balanced economic growth in the UK (and, certainly, in other countries as well). Gardiner et al. (2013) argue that spatially unbalanced development and growth may bias or even compromise national economic policy, as it occurred in the UK during and after the global financial crisis in the second half of the 2000s.

This study examines the extent to which the UK economy is imbalanced and whether the crisis has reinforced trends of regional divergence. Our research methodology combines a literature review covering the latest relevant contributions and descriptive empirical data analysis. In the third section, we focus on the long-run trends behind the UK's regional problem. The fourth section outlines the consequences of the financial crisis, while the fifth one maps the opportunities for rebalancing the UK's economy including the 'northern powerhouse' initiative and the ones related to devolution. The last section summarises our findings.

Rising regional inequalities in the United Kingdom

According to McCann (2016), the basic problem of the UK economy is represented by its large interregional economic inequalities, which co-exist with a highly centralised and top-down governance system. This long-standing problem emerges in several aspects: uneven geographical development, sectoral composition, balance between consumption and investment, between the size of the public sector relative to the private sector, and merits of export-led growth relative to domestic-led expansion (Gardiner et al. 2013). A well-known feature of the UK regional problem is the so-called **North-South divide**. The concept is present in current economic policy debates in the UK and has deep historical roots (Baker–Billinge 2004). Regional disparities in economic and social conditions have been a persistent feature of the UK since the mid-19th century (Martin et al. 2016). They were triggered by industrial specialisation, and later expanded and diminished in several waves (Gardiner et al. 2013). Until the inter-war period, booming heavy industries were largely concentrated in northern England, Scotland, and Wales, or 'outer Britain' (Morgan 2002); however, later these areas became depressed as their economies structurally decoupled from the 'new economy' in the South (Mandelson 2001).

According to the classification by Gardiner et al. (2013), the North consists of the following regions: West Midlands, Wales, Yorkshire-Humberside, North West, North East, and Scotland, while the South includes London, South East, South West, East of England, and East Midlands (*Table 1*). Geographically, the dividing line is usually drawn between the Wash on the northern edge of East Anglia and the Severn Estuary in the South West of England.

Table 1

'Northern' (grey) and 'Southern' (white) regions in the United Kingdom

NUTS 1 Code	NUTS 1 Name	GDP per capita (UK = 100.0)*
UKI	London	166.5
UKJ	South East	107.6
UKH	East of England	93.1
UKM	Scotland	92.4
UKK	South West	90.1
UKD	North West	84.9
UKF	East Midlands	81.9
UKE	Yorkshire and The Humber	81.5
UKG	West Midlands	80.7
UKN	Northern Ireland	77.3
UKC	North East	73.8
UKL	Wales	70.7

* GDP per capita is calculated as the average between 2008 and 2014.
Source: Author's elaboration based on Eurostat data.

Business cycles and economic shocks' patterns across the UK regions are less correlated than those between EU countries, and London's economy is becoming increasingly disconnected from the rest of the UK; in other words, there is little or no economic cohesion between the different parts of the country. Moreover, regional interests are diverging, which poses difficulties in the country governance (McCann 2016).[2] While London and the South East region cover around 8.5 per cent of the area, 27 per cent of the population, and 28 per cent of the employment within the UK, these regions account for 38 per cent of the country gross domestic product (*Table 2*).

[2] 'The UK has "gone south"[…].' (McCann 2016, p. 27).

Table 2

Shares of the NUTS 1 regions with respect to area, population, employment, and GDP of the United Kingdom, 2014

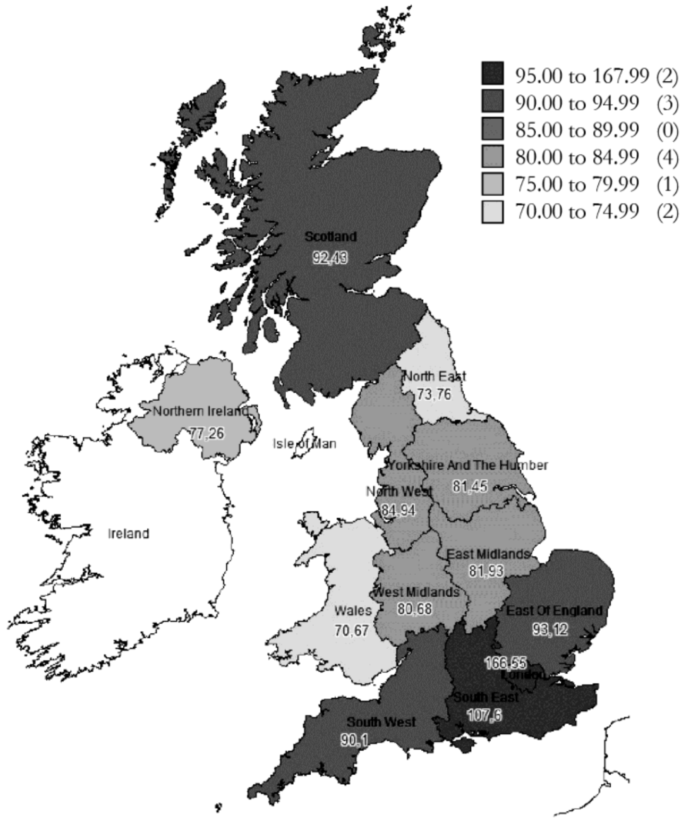
	Area		Population		Employment		GDP	
	km^2	%	1 000 persons	%	1 000 persons	%	Million euros	%
North East	8,573	3.52	2,614.8	4.06	1,143.3	3.87	66,700	3.00
North West	14,112	5.80	7,120.4	11.06	3,143.8	10.64	209,557	9.43
Yorkshire-Humber	15,369	6.31	5,356.7	8.32	2,408.7	8.15	148,869	6.70
East Midlands	15,594	6.41	4,614.0	7.17	2,132.9	7.22	133,084	5.99
West Midlands	12,964	5.33	5,691.3	8.84	2,478.4	8.38	160,458	7.22
East of England	19,084	7.84	5,981.7	9.30	2,819.3	9.54	194,081	8.73
London	1,574	0.65	8,477.3	13.17	4,157.1	14.06	509,402	22.91
South East	19,067	7.83	8,828.3	13.72	4,170.2	14.11	335,161	15.07
South West	23,860	9.80	5,396.7	8.39	2,488.4	8.42	169,288	7.61
Wales	20,742	8.52	3,095.1	4.81	1,320.3	4.47	75,976	3.42
Scotland	78,418	32.21	5,337.5	8.29	2,509.7	8.49	172,744	7.77
Northern Ireland	14,078	5.78	1,837.3	2.86	787.6	2.66	48,078	2.16
United Kingdom	243,435	100.00	64,351.2	100.00	29,559.7	100.00	2,223,398	100.00

Source: Author's calculation based on Eurostat data.

Then, we investigate to what extent basic economic indicators, GDP per capita time series, and employment data provided by Eurostat reflect the classification by Gardiner et al. (2013). *Figure 1* maps GDP per capita at the NUTS 1 level; the values are expressed in current prices (in euros) between 2008 and 2014, taking the UK average as 100. This map approximately corroborates the regions' grouping (North and South) mentioned earlier. Scotland seems to be a positive outlier amongst the northern regions, while East Midlands a negative outlier in the South. The position of West Midlands has been debated over the previous decades; economically, it currently belongs to the North.

Figure 1

Regional dispersion of the average GDP per capita (current prices, in euros) between 2008 and 2014 at the NUTS 1 level, UK average = 100.00



Source: Author's elaboration based on Eurostat data.

The North-South divide is a stereotype, and characterising the UK economy with this phenomenon is a simplification. Nonetheless, in broad terms, the divergence between these two major areas is undeniable (Martin et al. 2016). Gardiner et al. (2013) show that, in some cases, the existence of such a divide can be questioned, since local areas of economic depression and deprivation can be found in the South, while there are areas of growth and prosperity also in the North. The authors highlight that the picture is more complex at the local level than it is at a regional scale (*Table 3*). For example, even London includes some areas of high unemployment and poverty. However, the basic argument on the existence of a North-South divide is that areas of economic depression and deprivation are more numerous in the North, while areas of economic prosperity abound in the South (Gardiner et al. 2013).

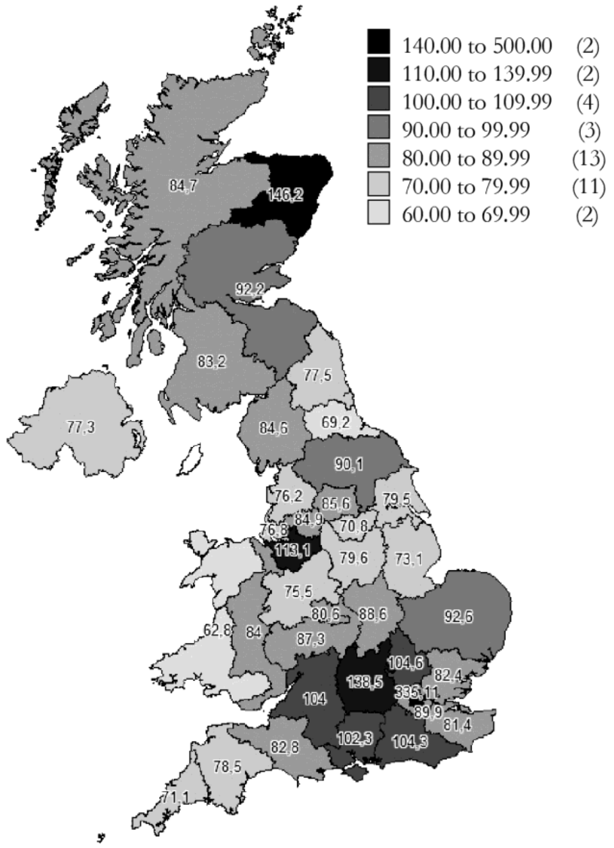
Table 3

Regional differences at the NUTS 2 level in the United Kingdom
('North': grey, 'South': white)

NUTS Code	NUTS 2 Name	GDP pc*
UKI3	Inner London - West	497.5
UKI4	Inner London - East	172.7
UKM5	North Eastern Scotland	146.2
UKJ1	Berkshire, Buckinghamshire and Oxfordshire	135.8
UKD6	Cheshire	113.1
UKI7	Outer London - West and North West	106.8
UKH2	Bedfordshire and Hertfordshire	104.6
UKJ2	Surrey, East and West Sussex	104.3
UKK1	Gloucestershire, Wiltshire and Bristol/Bath area	104.0
UKJ3	Hampshire and Isle of Wight	102.3
UKH1	East Anglia	92.6
UKM2	Eastern Scotland	92.2
UKE2	North Yorkshire	90.1
UKI6	Outer London - South	89.5
UKF2	Leicestershire, Rutland and Northamptonshire	88.6
UKG1	Herefordshire, Worcestershire and Warwickshire	87.3
UKE4	West Yorkshire	85.6
UKD3	Greater Manchester	84.9
UKM6	Highlands and Islands	84.7
UKD1	Cumbria	84.6
UKL2	East Wales	84.0
UKM3	South Western Scotland	83.2
UKK2	Dorset and Somerset	82.8
UKH3	Essex	82.4
UKJ4	Kent	81.4
UKG3	West Midlands	80.6
UKF1	Derbyshire and Nottinghamshire	79.6
UKE1	East Yorkshire and Northern Lincolnshire	79.5
UKK4	Devon	78.5
UKC2	Northumberland and Tyne and Wear	77.5
UKN0	Northern Ireland	77.3
UKD7	Merseyside	76.8
UKD4	Lancashire	76.2
UKG2	Shropshire and Staffordshire	75.5
UKI5	Outer London - East and North East	73.3
UKF3	Lincolnshire	73.1
UKK3	Cornwall and Isles of Scilly	71.1
UKE3	South Yorkshire	70.8
UKC1	Tees Valley and Durham	69.2
UKL1	West Wales and The Valleys	62.8

* GDP per capita is calculated as the average between 2008 and 2014; the UK average is set at 100.
Source: Author's calculation based on Eurostat data.

Figure 2
Regional dispersion of the average GDP per capita (current prices, in euros) between 2008 and 2014 at the NUTS 2 level, UK average = 100



Source: Author's elaboration based on Eurostat data.

The region that most challenges the North-South classification is Scotland. According to McCann (2016), the UK can be considered as consisting of three different economies: London and its hinterland (South East, East of England, and South West), Scotland, and the rest. In terms of GDP, productivity, and employment, Scotland has improved within the UK, with only the recovery (austerity) after the crisis causing a temporary deterioration in its relative performance. This seems to suggest that the relative catching-up of Scotland is not a direct consequence of the increased devolution in the past few years, but rather a longer-term phenomenon.[3] Some of the contributing factors can be the increased importance of oil industry

[3] See Greg et al. (2016) for an analysis of the Scottish long-term economic development in the context of devolution from the cities' perspective.

and green energy, as well as the economic vibrancy of some first- and second-tier cities such as Aberdeen. Given the possibility of Scotland's independence, economic stability becomes crucial for public finance sustainability and overall prosperity (Harris–Moffat 2016, Armstrong–McLaren 2014).

As per the GDP per capita at the NUTS 2 level between 2008 and 2014, the evidence is certainly more mixed (*Table 3* and *Figure 2*). On average, the values range between 63 per cent (West Wales and the Valleys) and 497 per cent (Inner London–West)[4] of the national average. Out of the 40 regions at the NUTS 2 level, only ten regions exhibit a GDP per capita above the national average, and two of them are in the 'North' (North Eastern Scotland, 146 per cent and Cheshire, 113 per cent).

In most regions, the evolution of the regional GDP per capita was more or less stable before and after the global financial crisis relatively to the national average (*Table 5*), though with some exceptions. London constantly advanced (from 163 to 171 per cent)[5], and the North East, the North West, and Scotland also improved their position by around 2 to 3 percentage points.[6] The largest deterioration was observed in the West Midlands (from 87 to 80.5 per cent)[7], Northern Ireland (from 80 to 75 per cent) and the East of England (from 97 to 92 per cent).[8] As pointed out by Martin (2015), the long boom between the early-1990s and 2007 reinforced regional inequalities. The variation coefficient of GDP per capita is around 30 per cent at the NUTS 1 level, and around 70 per cent at the NUTS 2 level, with an increasing trend (*Table 4*). As per McCann (2016), business cycles and economic shocks' patterns across UK regions are today less correlated than those between EU countries. At the NUTS 1 level, the scale of interregional differences in GDP per capita is comparable to the corresponding international differences across 17 European countries and across 22 OECD countries, while at the NUTS 3 region level, these differences are comparable to those across 22 European countries and 27 OECD countries (McCann 2016).

[4] Figure 2 indicates the average value for Inner London (336.11 per cent), computed as the average of Inner London West (497.5 per cent) and Inner London East (172.7 per cent). The average value of Outer London is 89.85 per cent, computed as the average of Outer London East and North East (73.3 per cent), Outer London South (89.5 per cent), and Outer London West and North West (106.8 per cent).

[5] Nevertheless, Outer London deteriorated significantly from 101 to 92 per cent, while Inner London improved from 301 to 341 per cent. By 2014, the Inner London West NUTS 2 region reached 495 per cent of the national average GDP per capita.

[6] Specifically, North Eastern Scotland substantially improved (from 117.5 per cent in 2000 to 150 per cent in 2014), while the other two NUTS 2 regions of Scotland nearly stagnated.

[7] Out of the 3 NUTS 2 regions in the West Midlands NUTS 1 region, the West Midlands NUTS 2 region heavily deteriorated (from 91.5 to 79 per cent, while the other regions nearly stagnated.

[8] The highest drop was observed in Bedfordshire and Hertfordshire (from 114 to 103 per cent, while East Anglia and Essex lost only 2 and 4 percentage points relative to the national average, respectively.

Table 4

Variation coefficient and ratio of the maximum and minimum value of the GDP per capita at the NUTS 1 and NUTS 2 levels between 2000 and 2014

	2000	2002	2004	2006	2008	2010	2012	2014
	NUTS 1							
CoV*	27.1	25.8	24.7	25.0	26.8	27.0	28.4	29.6
Max/min	2.33	2.27	2.19	2.22	2.36	2.34	2.36	2.43
	NUTS 2							
CoV*	59.4	56.5	57.0	58.9	64.1	68.2	70.3	68.0
Max/min	7.27	7.00	6.91	7.03	7.80	8.11	8.11	7.85

* The coefficient is expressed in percentage points.
Source: Author's computation based on Eurostat data.

Table 5

Evolution of GDP per capita (current prices, in euros) between 2000 and 2014 at the NUTS1 level

NUTS 1 Name	2000	2002	2004	2006	2008	2010	2012	2014
North East	20,000	21,700	23,300	25,700	22,900	21,300	23,800	25,500
North West	23,600	25,700	26,700	29,300	26,400	24,900	27,100	29,400
Yorkshire-Humber	23,000	24,700	26,000	28,200	25,500	23,700	26,000	27,800
East Midlands	23,800	24,800	25,300	28,000	25,200	23,800	26,400	28,700
West Midlands	24,900	25,700	26,300	28,300	25,000	23,300	26,200	28,100
East of England	27,800	29,200	29,700	32,500	29,400	27,100	29,800	32,200
London	46,600	47,500	49,000	54,200	50,400	47,300	54,200	59,700
South East	31,600	33,700	33,300	35,900	32,800	31,100	35,100	37,800
South West	25,400	27,000	28,000	30,100	27,600	26,600	28,900	31,200
Wales	20,200	20,900	22,300	24,400	21,400	20,200	23,000	24,600
Scotland	25,600	27,300	28,400	31,700	28,800	26,500	29,300	32,300
Northern Ireland	23,000	23,400	24,600	27,600	24,700	22,400	24,800	26,100
United Kingdom	28,600	30,000	30,800	33,900	30,900	28,900	32,200	34,900

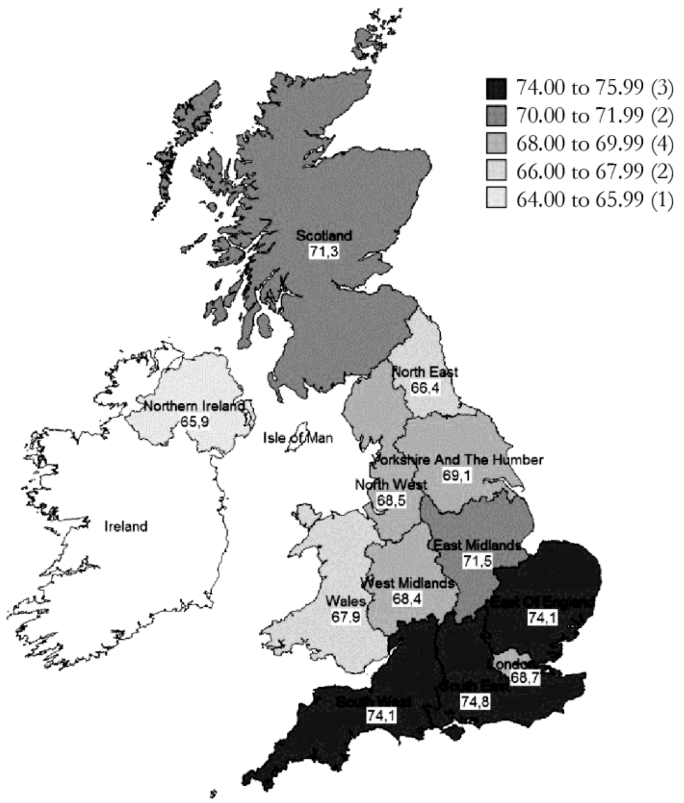
Source: Author's elaboration based on Eurostat data.

Population in the UK has been growing constantly from 58 million in 2000 to 65 million in 2015, at a 0.66 per cent average annual rate. The growth rate has been positive in every NUTS 1 region since 2003. However, there are significant differences before and after the crisis. Specifically, the annual population growth rate steadily increased before the crisis (from 0.37 per cent in 2001 to 0.82 per cent in 2008), but during the recovery, this tendency stopped, and the growth rate stabilised around an annual average of 0.76 per cent. There has been a sharp increase in the yearly population growth rate of London between 2004 and 2009, and after the crisis it remained high at around 1.5 per cent. The lowest, though increasing, growth rates were measured in the North East, which moved from -0.2 per cent in 2001 to 0.42 per cent in 2015. After 2008, Northern Ireland, Scotland, and Wales experienced diminishing, but still positive population growth rates. After 2013, rates have increased in all NUTS 1 regions except for Wales and Northern Ireland. Considering the period after the crisis, a geographic division emerges: the highest average annual population growth rates were measured in the 'South' (0.69 to 1.5 per cent), while the lowest ones in the 'North'(0.33 to 0.66 per cent).

As for the **employment** data, *Figure 3* firmly supports the North-South classification by Gardiner et al. (2013). Typically, South East, South West, East of England, East Midlands, and Scotland are above the national average employment rate (71 per cent), while London is on average significantly below this level (*Figure 4*).

Figure 3

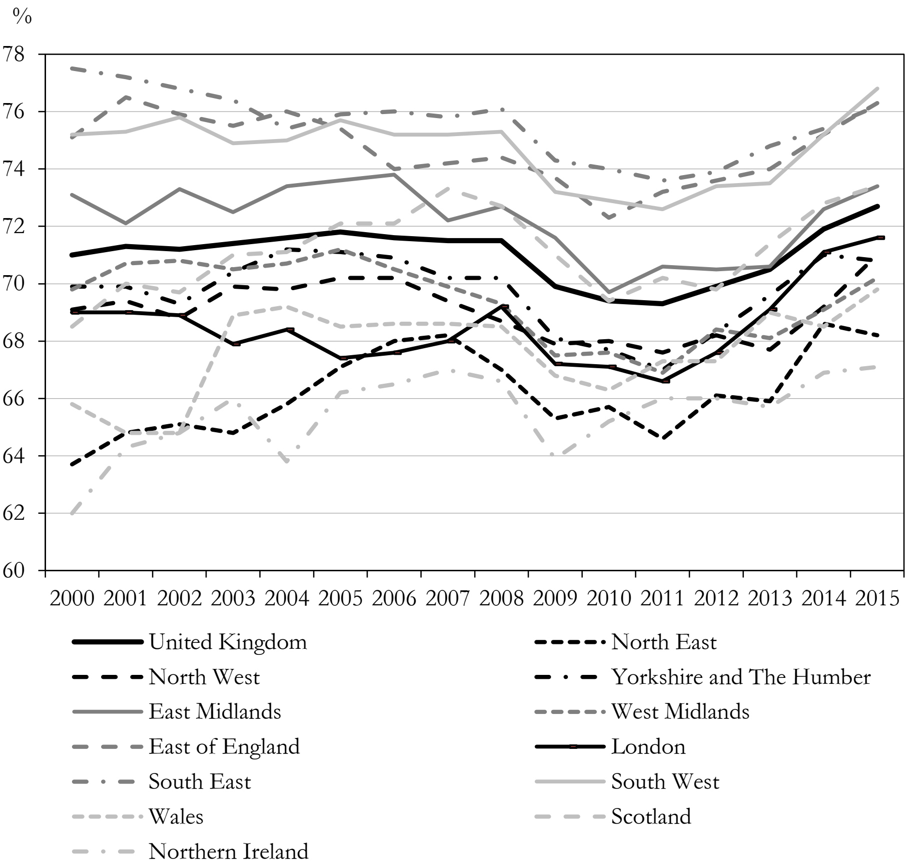
Average annual employment rate between 2008 and 2015 in the NUTS 1 regions of the United Kingdom



Source: Author's elaboration based on Eurostat data.

Figure 4

Evolution of the employment rates between 2000 and 2015 in the United Kingdom

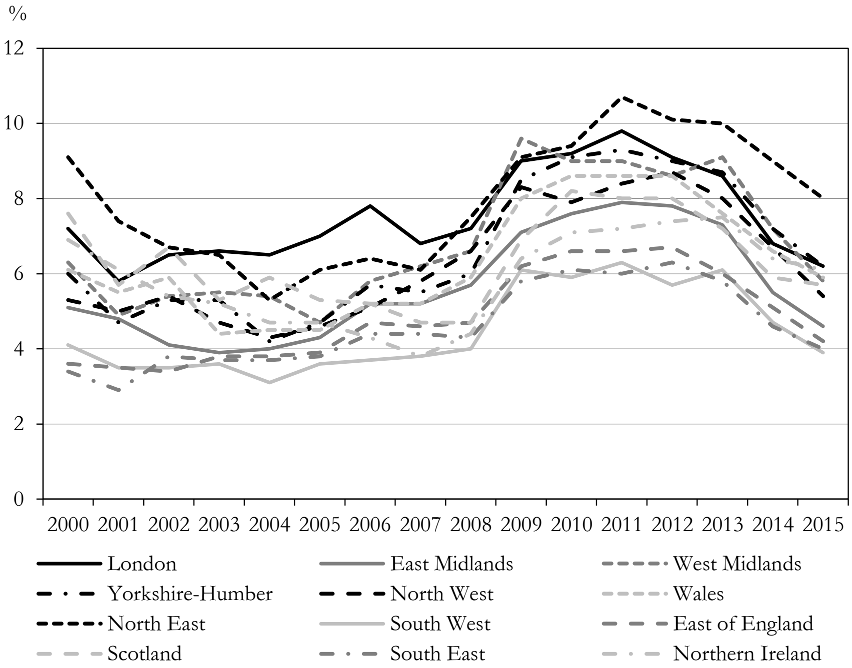


Source: Author's elaboration based on Eurostat data.

Figure 5 shows the evolution of the **unemployment** rates in the United Kingdom at the NUTS 1 level in the 2000s. Among the southern regions, London is a negative outlier, with the highest unemployment rates in the years before the global financial crisis. The rate peaked at 12 per cent in 2011 in Inner London–East, and at 11.1 per cent in Outer London–East and North East. On average, these NUTS 2 regions reported the highest unemployment rates after 2000. The lowest average unemployment rate (3.9 per cent) was measured in North Eastern Scotland (Aberdeen and Aberdeenshire) between 2000 and 2015, and remained at quite a low level (between 3 and 4.8 per cent) during and after the crisis. North Yorkshire (4.2 per cent) and Cheshire (4.6 per cent), though located in the 'North', are also among the regions with the lowest unemployment rates.

Figure 5

Evolution of the unemployment rates between 2000 and 2015 in the United Kingdom at the NUTS 1 level



Source: Author's elaboration based on Eurostat data.

Eurostat data highlight marked differences across NUTS 1 regions with respect to **education attainment**. Since the beginning of the 2000s, the share of people aged 25 to 64 with less than primary, primary, and lower secondary education has been decreasing constantly all over the country, from an average of 35.6 per cent in 2000 to 20.3 per cent in 2015. In parallel, the share of people aged 25 to 64 having tertiary education has been constantly increasing after the Millennium, from 28.5 per cent in 2000 to 41.6 per cent in 2015. However, cross-sectional (between regions) standard deviation has also increased. In 2015, only London, Scotland, the South East, and the South West regions were above the national average (41.6 per cent) with respect to the share of people aged 25 to 64 with tertiary education (*Table 6*). Among the NUTS 2 regions, though in the South West, the lowest share was reported in Cornwall and the Isles of Scilly (32 per cent), while the highest one was measured in Inner London–West (69.5 per cent). The East of England and East Midlands also positioned below the national average. The lowest share was reported for Northern Ireland and the North East. This North-South gap is partly a consequence of out-migration of the better qualified to more prosperous regions, where a higher proportion of better jobs is offered (Adams et al. 2003). The significant disparities with respect to education attainment (the variation coefficient is around 15 per cent) point to the importance of related policy interventions as a central part of regional development policy.

Table 6

Share of tertiary education attainment of people aged 25 to 64 in the NUTS 1 regions, 2015

NUTS 1 Name	%
London	55.1
Scotland	47.1
South East	44.7
South West	41.8
Wales	38.8
East of England	37.2
North West	37.2
West Midlands	36.2
East Midlands	35.9
Yorkshire and The Humber	35.4
North East	35.0
Northern Ireland	33.6
United Kingdom	41.6

Source: Author's elaboration based on Eurostat data.

Productivity is widely recognised as the most important long-run driver of economic growth (Harris–Moffat 2016). As showed in *Figure 6*, in the long term southern regions tend to outperform northern ones in terms of productivity, measured as the nominal gross value added per hour worked. Scottish productivity, especially in Aberdeen city and Aberdeenshire, is similar to that of regions in the South East, owing to the great variety of its industries, while East Midlands and South West seem to exhibit lower performances amongst the southern regions. Rural and remote areas, as well as those regions that are dependent on agriculture and tourism usually lag behind, while large cities tend to be quite productive (Boren 2015). Regional inequalities in the UK are amongst the highest of any advanced OECD country, even by excluding the case of London (McCann 2016).

According to the Office for National Statistics (2017a), the very high levels in the Greater London region lead to a skewed distribution of productivity across the UK. As a result, relatively few regions show productivity levels above the UK average: in 2015, only 47 out of 168 NUTS 3 regions across England, Scotland, and Wales had a gross value added per hour worked above the UK average, of which 21 were in London. The analysis shows that, in the South of England (South East, South West, and East of England), productivity levels were well above the UK average in the most productive areas, while the lowest labour productivity levels in 2015 were generally found in rural or coastal areas outside Greater London (*Table 7*).

Table 7

Regional productivity index at the NUTS 3 level in 2013 (UK less Extra-Regio = 100.0)

NUTS Code	NUTS Name	Productivity Index
	Top 10	
UKI11	Inner London – West	146.8
UKJ11	Berkshire	133.3
UKI12	Inner London – East	133.2
UKJ23	Surrey	124.7
UKJ13	Buckinghamshire CC	118.6
UKM50	Aberdeen City & Aberdeens.	118.5
UKF11	Derby	116.5
UKM25	Edinburgh, City of	115.7
UKK14	Swindon	113.5
UKJ12	Milton Keynes	112.9
	Bottom 10	
UKM24	Scottish Borders	75.4
UKM32	Dumfries & Galloway	75.4
UKD41	Blackburn with Darwen	74.4
UKG11	Herefordshire, County of	74.3
UKK30	Cornwall and Isles of Scilly	72.2
UKL12	Gwynedd	72.2
UKL11	Isle of Anglesey	71.8
UKM66	Shetland Islands	71.5
UKL14	South West Wales	69.2
UKL24	Powys	62.1

Source: Author's elaboration based on Office for National Statistics data.

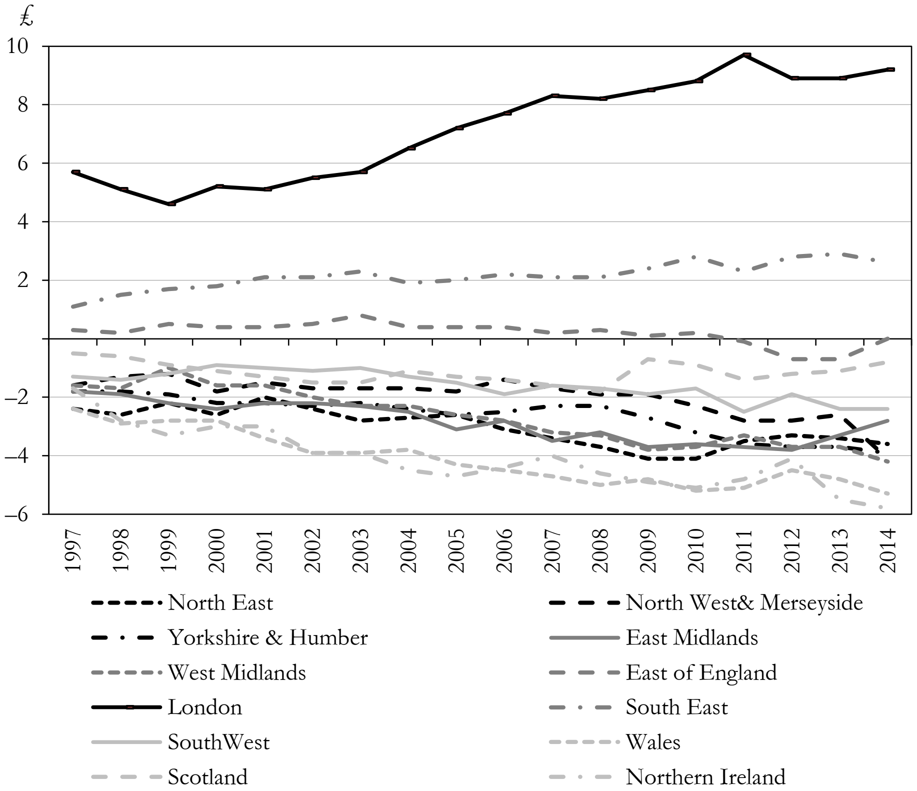
In the Midlands, two NUTS 3 regions exhibited productivity levels above the UK average in 2015: Solihull (West Midlands) and Derby (East Midlands), where car or aerospace manufacturing plants are located. In the North of England (North West, North East and Yorkshire, and The Humber), in 2015 only Chesire emerged as a positive outlier. The county is renowned for its agricultural industry and its leading role in several high-tech, high-skill industrial sectors (Billington 2011). In Scotland, four NUTS 3 regions[9] exceed the average UK productivity level. Harris

[9] Aberdeen city and Aberdeenshire (North East Scotland), Edinburgh (Eastern Scotland), South Ayrshire (South West Scotland) and Inverclyde, East Renfrewshire, and Renfrewshire (South West Scotland).

and Moffat (2016) analyse in detail the productivity gap between Scotland and the rest of the UK. Specifically, they identify 'place' and 'non-place' effects: the former considers the effect on productivity if plants with exactly the same characteristics were relocated from the rest of the UK to Scotland. In other words, such effects measure advantages or disadvantages associated with location. 'Non-place' effects, instead, show whether in Scotland there are too many or too few plants with characteristics not directly related to location which can be associated with lower or higher productivity. In terms of results, both positive and negative 'place' effects emerge in different industries, while 'non-place' effects turn out to be negative in all sectors. Harris and Moffat (2016) also suggest that Scotland suffered more than the rest of the UK from the closure of relatively highly productive foreign-owned plants. At the NUTS 3 level, all the twelve regions in Wales and the five in Northern Ireland fall behind the UK average.

Figure 6

Productivity gap between the UK average and the NUTS 1 regions, 1997-2014



Source: Author's elaboration based on Office for National Statistics data.

The impacts of the global financial crisis

In the UK, spatially unbalanced growth is politically recognised as having contributed to the 2008 financial crisis as well as a hindrance to future economic stability (Martin 2015). This means that regional economic inequalities increased not only in boom phases, but also during and after the crisis at even greater pace, resulting in an increasing concentration of economic activities around the capital city.

The global financial crisis caused a 24.3 per cent drop in GDP per capita between 2007 and 2009. As a response to the recession in 2008 and 2009, in the labour market, the UK experienced a prolonged fall in productivity, a stronger employment performance, a rapid growth in part-time and self-employment, and a dramatic decrease in real wages. However, these tendencies differ across regions (Bell–Eiser 2016). In the literature, London and the South East emerged as more resilient than other (older industrial) regions (Fingleton et al. 2012, Industrial Communities Alliance 2015, Bell–Eiser 2016).

The crisis resulted in a 2 percentage points' drop in the average employment rate between 2008 and 2011; however, the rate recovered to nearly 73 per cent by 2015, and it has been constantly increasing since 2012 (*Figure 4*). The relative position of the NUTS 1 regions has not changed much after the crisis, excepting Scotland, which improved a lot (from 68.5 per cent in 2000 to 73.4 per cent in 2015).[10] London proved quite resilient after the crisis, since it recovered its pre-recession employment level and rate substantially before the other regions (Bell–Eiser 2016). More in detail, during the recovery, there was a significant rise in part-time work relative to full-time work, which sheds light on the phenomena of underemployment (people work part-time but wish to have a full-time job) and hidden unemployment (partial inactivity). Job-to-job moves were relatively rare, and employees tended to keep their jobs, though under less favourable conditions. Similar phenomena were captured by Green and Livanos (2015) in the concept of involuntary non-standard employment, consisting of involuntary part-time and involuntary temporary work. The authors point out that weaker regional economies experienced larger than average shares of involuntary non-standard employment (North East, Wales, West Midlands, and Northern Ireland), while the opposite occurred in core regions.

Labour demand fell during and after the crisis due to the programme of fiscal consolidation and the decrease in public sector employment. The latter affected the regions disproportionately, since the regions outside London and the South East are more dependent on it as compared to other ones (*Table 8*). As per the Office for National Statistics (2017b), Northern Ireland presents the highest proportion of

[10] Actually, inequalities exist in Scotland: the highest employment rate was measured in North Eastern Scotland (77.2 per cent) and in the Highlands and Islands region (74.6 per cent), while Eastern Scotland (72.5 per cent) and South Western Scotland (67.9 per cent) have lower rates.

public sector employment relative to the private sector: specifically, it has fallen from 31 to 25 per cent since the crisis (the UK average has fallen from 22 to 17 per cent). Similar figures also apply to Wales, Scotland, and the North East of England. The lowest proportion of public sector employment was measured in London: it was around 19 per cent in 2009 and has fallen to 14.6 per cent in 2016. In the South East, the proportion changed from 18 to 15 per cent and in East of England and East Midlands from 19 to 15 per cent. The other four regions (Yorkshire and the Humber, North West, South West, and West Midlands) reported proportions near the UK average.

Table 8

Employment change between 2009 and 2016 in the public and private sectors (2009 = 100.0%)

NUTS 1 Region	Public sector	Private sector
North East	–20.9	+17.4
North West	–17.0	+11.7
Yorkshire-Humber	–18.1	+13.9
East Midlands	–14.5	+14.4
West Midlands	–16.1	+15.8
East	–12.6	+17.2
London	–9.0	+28.6
South East	–12.0	+10.3
South West	–18.9	+16.7
Wales	–18.0	+16.5
Scotland	–14.7	+12.9
Northern Ireland	–10.4	+19.2
UK	–15.1	+16.4

Source: Author's elaboration based on Office for National Statistics data.

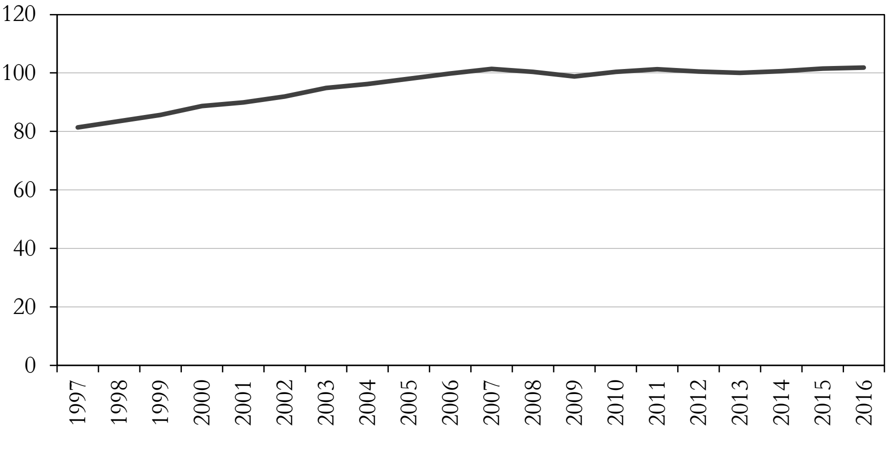
According to Eurostat data (*Figure 5*), during the global financial crisis, the highest increase in the unemployment rate was measured in the North East (from 6.1 per cent in 2007 to 10.7 per cent in 2011); moreover, high increases were experienced in Yorkshire and the Humber (3.8 percentage points), Northern Ireland (3.4 percentage points), Wales (3.4 percentage points), Scotland (3.3 percentage points), and London (3 percentage points). On the other hand, the South East and East of England resisted more to the crisis, as the increase in unemployment rates was relatively low (1.6 and 2 percentage points, respectively). In the recovery phase, unemployment rates have decreased in all NUTS 1 regions, though to a different extent. In London, the decrease was 3.6 percentage points (from 9.8 per cent in 2011 to 6.2 per cent in 2015); similarly, it was around 3 percentage points in the Midlands, in Yorkshire and the Humber, and in the North West. The smallest decrease (1.1 percentage points) was reported in Northern Ireland: from 7.2 per cent in 2011 to 6.1 per cent in 2015, which suggests that this region is the least resilient.

The regional differences in the impacts of the crisis on the labour market can be explained, among other important factors, by internal and international migration flows, as well as by the structure of the immigrant labour force (Bell–Eiser 2016).

Harari (2017) shows that, historically, UK labour productivity has grown by around 2 per cent per year, but it has stagnated since the 2008-09 recession (*Figure 7*). Labour productivity at the end of 2016 exceeded the pre-recession peak level (the value in fourth quarter of 2007) by 0.1 per cent only. In 2016, the annual productivity growth was 0.3 per cent. The reasons behind this productivity puzzle are numerous: falling productivity in the oil and gas and financial sectors; weak investments reducing the quality of equipment; the banking crisis generating lack of lending to more productive firms; employees being moved to less productive roles within the firm; and slowing rates of innovation and discovery, as well as population ageing. However, these factors are not sufficient on their own to entirely explain the phenomenon (Barnett et al. 2014, Harari 2017). The GDP growth realised in the past few years is mainly attributable to the increase in the hours worked (that is, increasing employment and decreasing unemployment) rather than productivity growth, which means that the labour market performance has been relatively strong during and after the crisis. As a result, wages and living standards have stagnated since the end of the crisis, and real wages fell during the recovery to a level around 10 per cent lower than before the recession (Gregg et al. 2014, Bell–Eiser 2016). Nominal wages have been frozen and even cut during the recovery, which resulted in decreasing wages in real terms due to the inflation. These trends were particularly evident in London.

Figure 7

Productivity index in the UK (output per hour worked), 1997-2016 (2013 = 100)



Source: Authors elaboration based on Office for National Statistics data.

After the crisis, only London, South East, Scotland, East Midlands, and North East regions were able to restore their productivity to above the pre-crisis level as compared to the national average. East of England fell below the national average, while Scotland almost reached it from a lower level.

Policies for improving economic balance

In response to the crisis and the subsequent recession, the UK government assigned key importance to the need to spatially rebalance the economy, in order to reduce its dependence on London and the South East by powering up northern cities (Martin 2015).[11] There is currently much interest in this issue not only at the central government level, but also within the major cities, regions, and nations (Martin et al. 2016).

The need for active policies for spatial rebalancing did not emerge as new. The so-called Barlow Report (Report of the Barlow Commission on the Distribution of the Industrial Population, 1940) raised concerns about the fact that concentration of economic activity and growth in London and the South East could lead to problems of congestion, urban sprawl, and inflation (Gardiner et al. 2013). The Commission not only recommended the development of new industrial capacity outside the core region, but even highlighted the importance of controlling London's growth to reduce the disparities between North and South, resulting in the so-called 'planned decentralisation'. As a consequence, measures were needed to relocate population and industries to the slow growing regions. Regional policy then prompted a more balanced distribution of employment through direct interventions. Martin (2015) argues that, in contrast to the Barlow Commission proposition, no fixed amount of economic growth or activity has to be distributed across the national economy. In other words, it is useless holding back prosperous areas in order to promote activity in the less prosperous ones. Instead, it has to be ensured that the less prosperous areas are able to realise their full economic potential. To this aim, proper and fair access to both public and private resources is needed. A hindering factor for the development outside the core region is that economic, financial, and political power is too concentrated in London.

Two main arguments support the view that greater spatial balance is needed across the UK (Gardiner et al. 2013, Martin et al. 2016). The first one is related to social equity: sustained outward migration of the relatively most enterprising, qualified, and skilled people from the slow-growing regions damages both economic potential and social cohesion of such regions (Rowthorn 2010). The second one is the economic efficiency argument, for which the persistent existence of underutilised resources (labour, capital, and infrastructures) in less prosperous regions is

[11] As David Cameron said: '(We need) a plan to breathe economic life into the towns and cities outside the M25' (Cameron 2010).

economically inefficient and hinders national economic growth, in addition to inducing higher social benefits (Gardiner et al. 2010).

The significant extent of regional inequalities poses challenges for the national economic policies. Due to the economic divergences within the UK, the country cannot be regarded as an optimum currency area (McCann 2016). London is a recurring source of inflationary pressure (Martin 2015), and a more even geographical distribution of economic activity would lower such pressure in factor markets. According to Gardiner et al. (2011), reducing regional disparities may enhance national economic management, while a highly spatially imbalanced economy can distort both fiscal and monetary policies. The authors explain that in regions of persistent high activity, the rate of inflation that maximises growth is likely to be higher than the corresponding optimum rate in low-activity regions. Monetary policy instruments and a large part of fiscal policy measures are set centrally and, therefore, are not able to account for regional differences. With large spatial disparities, the effects of common policy instruments are different throughout the country and are not evenly effective. The risk is that national economic policy instruments are set in a way that favours core regions. For example, according to Eddie George, the Governor of the Bank of England between 1993 and 2003, unemployment in the North was an 'acceptable price to pay to curb inflation in the South'. McCann (2016) points out that such risk is not just potential now, since, according to the rhetoric typical in the London popular press, national UK public policy should strive at all costs to maintain London's performance (p. 114).

It is now recognised that the growth of the UK economy has been too dependent on a narrow range of activities, especially finance, and on the mega-region of London and the Greater South East. A new 'local growth agenda' included Local Enterprise Partnerships (after the abolition of Regional Development Agencies), a regional growth fund, local enterprise zones, city deals, as well as various other measures such as infrastructure projects (Martin 2015).

The so-called 'northern powerhouse' initiative[12] was introduced by Chancellor George Osborne in 2014, stating that northern cities (Manchester, Liverpool, Leeds, and Newcastle) are characterised by individual strength, but collectively they are not strong enough. Grouping the cities sufficiently close to each other would rebalance the economy (Osborne 2014). However, London growth is not hindered in any way (Martin 2015). The idea of the 'northern powerhouse' is based on promoting growth in and devolving fiscal powers to a group of northern cities sufficiently close to each other that, combined, would rival London and the South East. The main objectives are to increase jobs and incomes, redress the North-South divide, and lift the nation's stagnant productivity. However, the success of this initiative is not guaranteed (Martin–Gardiner 2017, Hayton et al. 2016). Experience shows that the

[12] A similar initiative has been launched by the government for the Midlands under the 'Midlands Engine Strategy' (HM Government 2017) in Spring 2017.

'march of the makers' envisaged by Osborne (2011) failed to happen, and finance, which has less vertical (and regional) spill-over effect than manufacturing, remained the main source of economic growth.

Recent policy agendas are centred on two major issues (McCann 2016): governance decentralisation and devolution; and improvement of regional and interregional connectivity to counterbalance the highly London-centric infrastructure system. However, outcomes will not necessarily be as envisaged. Martin (2015) suggests that the impact of the existing economic development policies on a greater spatial balance is expected to be small, since such measures remain piecemeal, 'add-on', and marginal to the basic structures and workings of the UK's national system of fiscal, monetary, and economic management, which generally favours London and its hinterland (Martin 2015).

In questioning whether London is good or bad for the rest of the country, Martin (2015) summarises the main approaches. One argument is that productivity benefits spread across the country, the economy of Greater London generates demand for goods and services in the rest of the UK, and London is a major contributor to the taxes which, in turn, help fund welfare payments and public spending across the whole nation (City of London Corporation 2011). On the contrary, McCann (2016) states that there is no evidence of widespread and beneficial economic spatial spread effects from London to other regions. There are no real spread effects at all, and this results in the weak long-run productivity performance of the country as a whole (McCann 2016). The counter-argument states that London is 'a different country', an 'island', a quasi-independent 'city-state', 'Planet London' (O'Brien 2012), or that the UK is actually a 'Disunited Kingdom' (Ganesh 2015). Specifically, the region has detached from the rest of the UK in terms of prosperity, economic growth, global orientation, and cyclical behaviour (Martin et al. 2016). Sturgeon (2014) depicts London as a 'black hole' which drains talent, investment, and business from the rest of the country, Europe, and the world.

According to Martin (2015), 'London is indeed a very "different creature" from the rest of the country's urban system, and its economy is most certainly partly driven by unique political forces.' The UK has one of the most centralised national political and financial systems amongst the OECD countries, and London receives huge amounts of public spending: around 14 percent of the total UK spending (*Table 9*). The balance between regions seems to improve when measured on a per capita basis. On the other hand, London and the South East are significant net contributors to the UK economy (Oxford Economics 2007). For this reason, it cannot be claimed that the agglomeration of activities in London is purely 'market-driven'. Spatial imbalances in the UK relate to a major spatial imbalance in the location and operation of the key levers of economic, financial, political, and administrative power (Martin–Gardiner 2017). Cities and regions outside London see the national policy as London-centric and ignoring their needs and conditions (Wilcox et al. 2014). It seems that, while state expenditures attempt to relieve regional disparities through welfare spending and redistribution, they do not really support extra growth in peripheral regions, since the allocated state capital and research spending is distorted towards London and the South.

Table 9

Total identifiable expenditure on services by country and region in real terms

	2010-11 outturn		2011-12 outturn		2012-13 outturn		2013-14 outturn		2014-15 outturn	
	£ million	£ per head	£ million	£ per head	£ million	£ per head	£ million	£ per head	£ million	£ per head
North East	25,813	9,979	25,158	9,690	24,925	9,578	24,720	9,470	24,498	9,355
North West	68,127	9,705	66,376	9,407	66,651	9,408	65,770	9,259	65,652	9,204
Yorkshire-Humber	47,320	9,005	46,801	8,850	46,547	8,755	46,158	8,648	46,453	8,667
East Midlands	38,012	8,434	37,405	8,244	37,586	8,229	37,548	8,166	37,866	8,165
West Midlands	50,097	9,001	49,451	8,817	49,363	8,748	49,100	8,653	49,650	8,690
East of England	48,474	8,347	46,860	7,993	46,803	7,923	47,308	7,945	47,467	7,887
London	88,040	10,921	85,819	10,460	84,051	10,116	84,073	9,989	84,092	9,848
South East	69,532	8,106	67,526	7,804	68,098	7,805	69,220	7,872	68,877	7,762
South West	44,461	8,451	44,156	8,330	44,326	8,301	44,915	8,352	45,023	8,302
Scotland	55,993	10,641	55,654	10,501	55,978	10,535	55,082	10,339	55,520	10,382
Wales	31,367	10,284	31,323	10,223	30,583	9,949	30,515	9,900	30,649	9,912
Northern Ireland	20,453	11,332	20,436	11,264	20,466	11,223	20,270	11,078	20,457	11,115
UK identifiable expenditure	587,689	9,364	576,964	9,117	575,378	9,032	574,680	8,965	576,205	8,920

Source: Author's elaboration based on HM Treasury (2016).

Martin (2015) claims that national political-administrative and economic governance systems, together with their territorial structures, can significantly influence the geography of economic growth and development through their macro-economic policies, taxation and spending priorities, funding of infrastructures, welfare programmes, and measures for crises management (e.g. current fiscal austerity programmes). As previously mentioned, due to the high centralisation of governance, policies are often London-centric and do not address the problems of less developed areas. The high levels of political centralisation and regional economic inequality are interdependent phenomena. In large and highly diverse economies like the UK, the top-down centralised governance system may not be really appropriate, and may even exacerbate the dislocating and decoupling of the national economy (McCann 2016, Martin–Gardiner 2017). A foremost priority of the national economic policy is to maintain London competitiveness, while disproportionately less attention is paid to the potential comparative advantages and growth prospects of northern regions and centres.

Martin et al. (2016) propose five novel elements for a policy model favouring a more spatially balanced economic development in the UK. These include decentralisation and devolution of governance in England; a new institutional framework to coordinate policies for spatial imbalance; decentralisation of public administration and employment; fiscal devolution; and, finally, financial system decentralisation. Recent policy initiatives toward rebalancing are rather fragmented and ad hoc. According to McCann (2016, p. 454), 'Whitehall exhibits only a very limited ability to think spatially'. Nonetheless, recent regional economic trends suggest that central governance is not sufficiently committed to reduce the increasing spatial disparities, and better tendencies will not arise until radical, comprehensive changes will occur in favour of peripheral regions. Since the phenomenon of large interregional inequalities poses a national problem, finding an effective solution is of national interest.

Summary

We studied several facets of regional economic disparities in the UK, and presented various evidences underlying the tendencies for increasing spatial imbalances before, during, and after the economic crisis. Data mostly support the well-known phenomenon of the North-South divide in terms of production and labour market developments, with Scotland representing the most significant exception. The economy of London and the South East definitely dominates the country's economic landscape and poses a great challenge for the national policy. During the recovery after the recession, south-eastern regions proved relatively resilient, while northern ones have been recovering more slowly. The primary reasons behind this are the difference in the dependence on the public sector and the vulnerability to austerity measures. A marked, unexpected, and unprecedented issue of the post-crisis period is the productivity puzzle, where the productivity growth rate substantially deviates from the pre-crisis level and does not tend to improve. Output growth is largely based on employment growth, while productivity has been mainly stagnant, and real wages have fallen dramatically.

Presently, the 'regional problem' poses challenges for the economic development of the whole nation and requires active policy attention. There are some significant, promising policy initiatives for powering up less prosperous regions and cities; however, these measures might not be sufficiently radical, effective, convincing, and coherent. The economic performance of the UK as a whole is excessively dependent on London and the financial sector. As a result, national economic policy places too little attention on the potential competitive advantages of northern regions and subordinates northern interests for the sake of London's prosperity. Some aspects of the mechanisms behind regional inequalities were not investigated in this study, including disparities on the housing market, innovation, and urban structure. These issues leave room for further research.

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