

2019 UK GENERAL ELECTION BRIEFING: **PLACES AND SPACES: MAPPING BRITAIN'S REGIONAL DIVIDES**

Andrew Aitken, Janine Boshoff, David Nguyen,
Ana Rincon-Aznar and Andrea Stochino
National Institute of Economic and Social Research (NIESR)

OVERVIEW

Economic performance varies widely across towns, cities and rural areas in the UK. Spatial disparities are found in all industrialised countries, although on some measures the UK is significantly more unequal than comparable countries. These disparities matter for people because local social and economic conditions directly affect individual living standards. In fact, research shows clearly that where you are born has a large effect on your opportunities in life. Spatial disparities mainly arise because of the strong tendency of economic activity to cluster in some places, which is driven to a large degree by the co-location of highly skilled workers and highly productive firms.

In this briefing we explore the key dimensions of spatial disparities and their evolution over time. We highlight some key policies that can help tackle some of these disparities in light of the proposals set out in the manifestos. The briefing is structured in two main sections, the first explores the extent of spatial disparities in the UK and discusses why people care about them, while the second section looks at the main drivers and scope for policy.

KEY TAKEAWAYS

- Different parts of the UK do not only differ in terms of income, employment and levels of productivity, but also when looking at measures of health and wellbeing. Furthermore, these disparities are highly persistent over time and along some dimensions the gap between places has only widened in the decade following the financial crisis.
- A key driver of local economic performance are education and skills, which in turn play a major role in determining the productivity of workers. We show that large differences across regions are evident, for example when looking at the share of population that holds a university degree. Labour productivity matters a great deal, as it is the key driver of long-term differences in income per person.

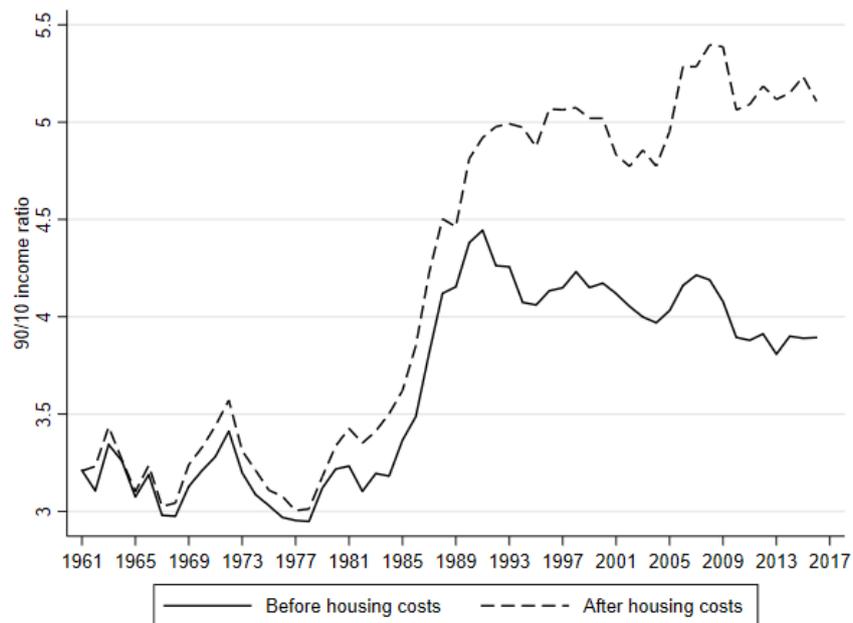
- The UK economy is dominated by London which is significantly more productive than other regions. This can mainly be explained by concentration of higher-value and knowledge-intensive service industries. Regional differences in productivity are much less pronounced in manufacturing.
- Finding ways to reduce this dominance by improving the performance of other areas would help to ‘spatially rebalance’ the UK. Unfortunately, government budget cuts since 2010 have been unevenly distributed across the UK. Local government in England, and particularly cities in the North of England have been the hardest hit. These cuts have reduced redistribution and contributed to the widening of spatial disparities.
- Public and private investment is unevenly distributed across the country. For example, spending on research and development (a key driver of productivity) is highest in the South and East of England. Also spending on infrastructure is highly unevenly distributed, with London (and to some degree Scotland) receiving a disproportionately high share of spending per person.
- People living and working in a modern economy need access to high-speed internet, but currently digital infrastructure is highly unevenly distributed across places in the UK. For example, while three quarters of premises in London have access to ultra-fast broadband it is only 1 out of 3 in Wales.
- The prevalent spatial differences in economic outcomes raise the question as to whether there is a need for spatially-targeted policies. Generally, economists tend to be sceptical of ‘place-based’ policies, favouring policies targeted at groups of people. The EU Structural Funds have generally favoured place-based policies, with funding targeted at the most deprived areas and the UK has been a beneficiary of these.
- While there might be greater scope for using place-based policies, for example with respect to infrastructure spending, or devolution, ultimately, we should care about the effect of policies on people more than on places. Therefore, efforts to reduce the degree of spatial inequality should be judged on the extent to which they improve opportunities for all.
- Here it is important that different policies (whether spatially-targeted or not) are integrated into a larger framework with clearly stated policy aims. For example, supporting specific industry sectors will inevitably favour some places over others, there is no consensus over the ‘acceptable’ degree of spatial disparities. We accept that these types of policies are needed to boost aggregate economic performance, but welcome transparent discussions about the spatial implications they inevitably have.

1. WHAT ARE SPATIAL DISPARITIES AND WHY DO PEOPLE CARE ABOUT THEM?

- The UK has a high degree of inequality compared to other major developed countries, across a wide range of dimensions, such as income, poverty, employment, well-being and health. We care about them because these inequalities manifest themselves differently across groups and places in the UK.
- Overall, income inequality in the UK is high, particularly when considering the costs of housing (see **Figure 1**). We show the ratio of income of the “top 10%” versus the “bottom 10%” rose sharply in the 1980s and has remained high since. The figure also shows that before cost of housing is considered, inequality had been on a slight downward trend since the late 1990s. However, when including housing costs, inequality has continued to rise. This also indicates that poorer parts of the society are spending an increasing share of their income on housing.

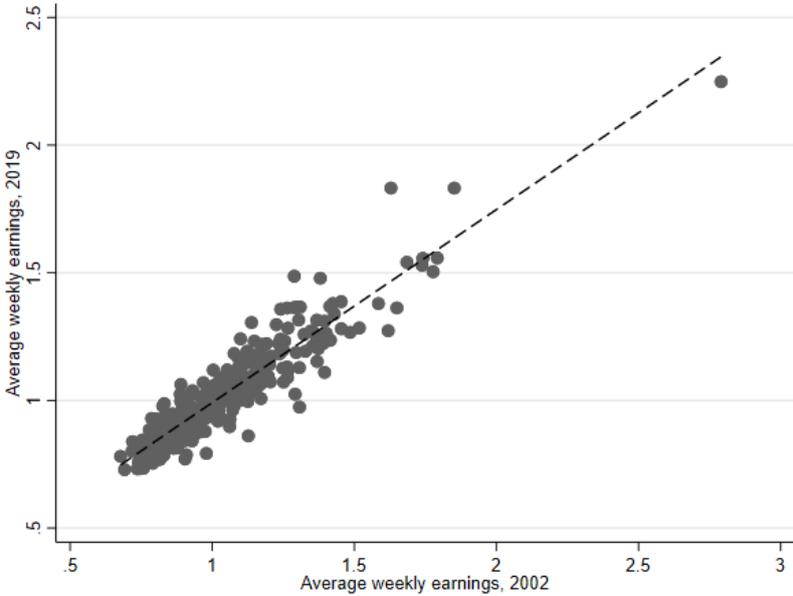
- Average wages and total household income vary significantly across the UK, both at regional level and at smaller spatial scales such as local authorities. Average wages in London are £735 per week, which is around £300 more than in Blackpool in areas such as the North West, Blaenau Gwent in Wales or North Devon in the South West.
- Structural differences between places can lead to long-lasting differences in economic opportunities for people living in different places. **Figure 2** illustrates the persistence in wage difference across different regions, by comparing average weekly wages in 2002 to 2019. Wages are “normalised” which means that areas with values below 1 have average wages below the UK average. In general, there are little signs that the lagging regions have been catching up to the UK average. The strong upward slope of the dashed line shows that areas with relatively low wages in 2002 also had relatively low wages in 2019.

Figure 1 Income inequality in the UK



Note: The figure shows net household equivalised income earned by households at the 90th percentile (those earning more than 90 percent of other households) compared to the net income of households at the 10th percentile (those earning higher than the bottom 10 percent). Incomes are measured net of direct taxes and inclusive of state benefits and tax credits, and at the household level. Monetary amounts are pounds per week in 2017/18 prices. Source: All statistics are based on IFS calculations using the Family Expenditure Survey (FES) up to and including 1992, and the Family Resources Survey (FRS) thereafter.

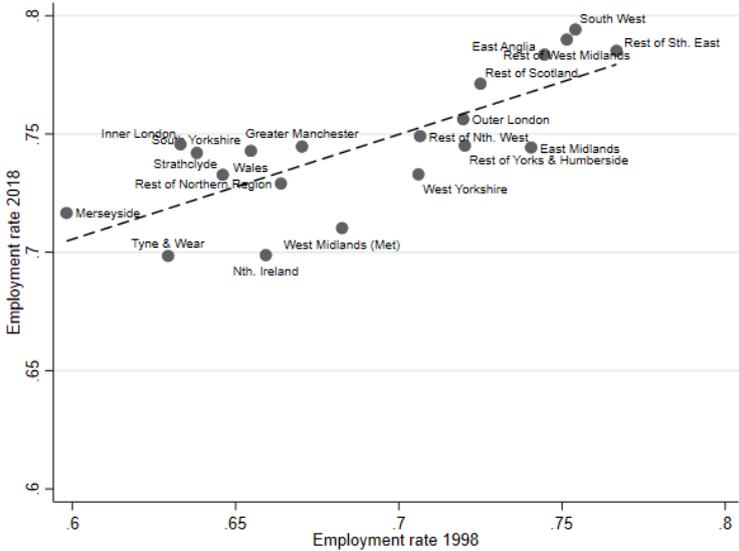
Figure 2. Normalised weekly wage across local authorities relative to UK average, 2002 vs. 2019



Source: Authors’ calculations from Annual Survey of Hours and Earnings (ASHE) data. Graph shows average area wage in 2002 (relative to UK average) against average area wage in 2019 (relative to UK average). For example, 1 = 100% of UK average, 3 = 300% of UK average.

- While employment in the UK is at a record high, there are still persistent differences across regions (see **Figure 3**). The South West has an employment rate close to 80%, while Northern Ireland and Tyne & Wear have employment rates below 70%. As in the case of differences in income, there is a high degree of persistence in employment rates over time. Although employment rates have increased between 1998 and 2018 in all regions, regions with relatively lower employment rates in 1998 also had relatively lower employment rates in 2018. In addition, there is variation in opportunities between people living within these regions.

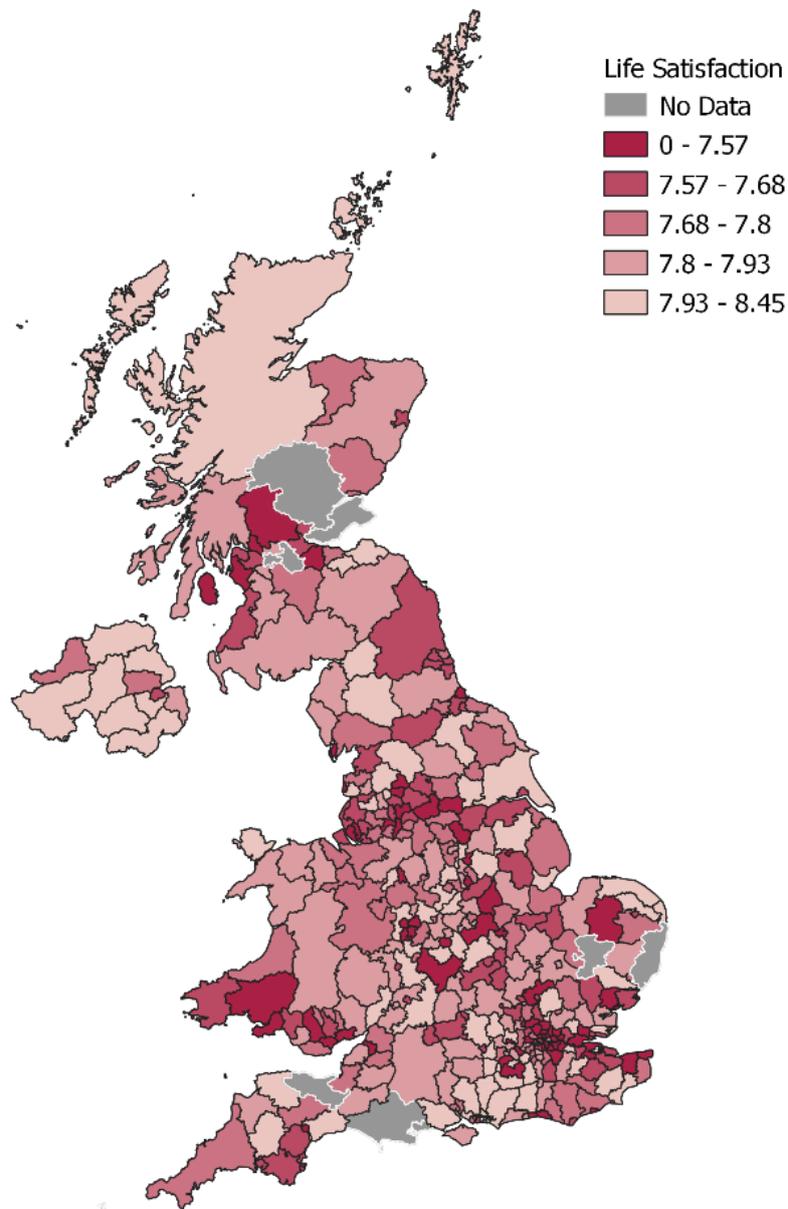
Figure 3. Change in employment rates across UK regions, 1998 and 2018



Notes: Authors’ calculations from the Quarterly Labour Force Survey. Dashed line indicates average change in employment rate between 1998 and 2018.

- An alternative approach to measuring well-being is to measure subjective wellbeing, such as happiness, life satisfaction or anxiety. **Figure 4** shows the variation in self-reported life satisfaction across local authorities in the UK, with the lighter shades showing higher levels of life satisfaction. Although London continued to report some of the lowest average life satisfaction in the UK in 2018/19, average life satisfaction has improved the most in London over the last 6 years (by 4.6%). Over the same period, average life satisfaction has also improved in the North East (3.8%), the North West (3.8%), and the West Midlands (3.6%).

Figure 4. Average Life satisfaction in the UK by local authority, 2018/19



Note: Map shows responses to question "Overall, how satisfied are you with your life nowadays?" People are asked to respond on a scale of 0 to 10, where 0 is "not at all" and 10 is "completely". Source: ONS wellbeing data.

<https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/measuringnationalwellbeing/april2018tomarch2019>

- Just as average incomes differ across places, average price levels do as well because of differences in the cost of goods and services in different parts of the country. For example, a haircut or restaurant meal in London is on average more expensive than in most other places of the UK. This is often referred to as the “purchasing power”, or the amount of money is needed to buy the same (or very similar) goods and services in different places.
- In **Figure 5** we show how much one would have to spend in different regions of the UK to buy a bundle of goods and services that costs the average UK citizen £100. Again, this highlights the stark differences across places, as people in Wales or Northern Ireland on average only need to spend around £74-78 to buy this “representative basket”. Londoners need to spend a little more (around 5%), though this needs to be seen against the backdrop of considerably higher wages.

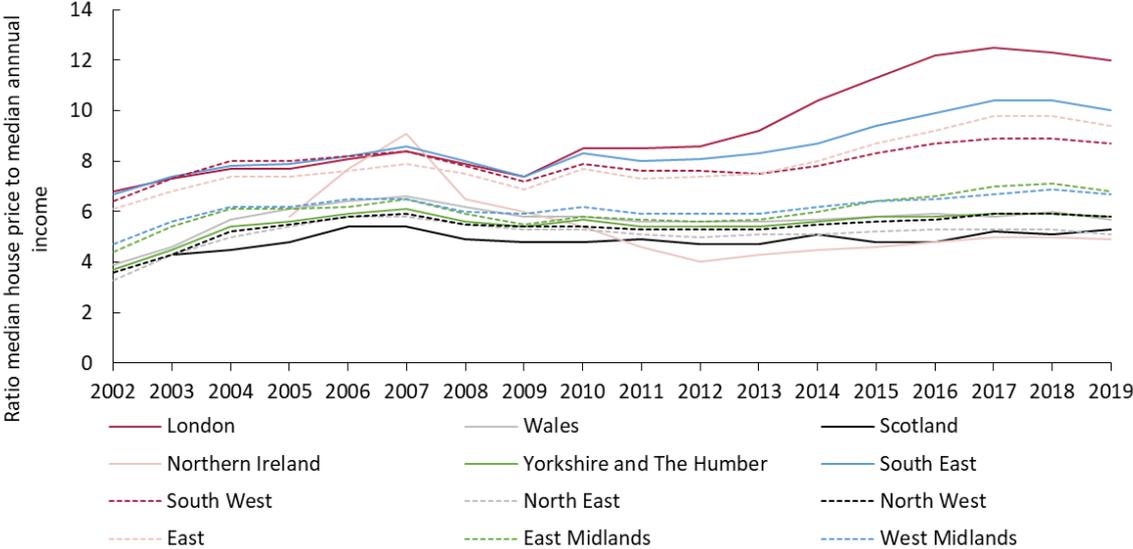
Figure 5. The costs of a representative £100 basket of goods across the UK



Notes: Authors’ calculations based on ONS data. In order to track relative price changes across time, the ONS produce a representative “basket of goods” that includes goods and services that people frequently purchase. Using this data, we constructed the same “basket of goods” for each of the regions to analyse the relative prices that households face in each region.

- Another important factor in determining living costs are house prices. **Figure 6** shows how since 2002 house prices have risen sharply compared to incomes, and particularly so in London, South East, East and South West. This Figure looks at incomes of the “median” person (or house), i.e. the precise income at which 50% of people have a higher and 50% have a lower income. Our analysis shows that the median house in London costs around 12 median annual incomes, which compares to around 5 annual incomes in Northern Ireland, the North East or Scotland.

Figure 6. Ratio of median income to median house price across UK regions, 2002 – 2019.



Notes: Annual data on median house prices for England and Wales from ONS, Scotland from Registers of Scotland, and Northern Ireland from OpenDataNI; annual median incomes calculated from Nomis data on weekly median income.

2. WHAT DRIVES SPATIAL INEQUALITY?

- Spatial inequalities are to a large degree driven by geographic concentration of more educated people and more productive firms and a reflection of different patterns of industry specialisation. The role and scope for policy should be to enable the benefits of growth to be shared more evenly, and to stimulate the productive and employment capacities of lagging regions, fostering on inclusiveness and cohesion. Some important drivers of spatial inequality are disparities in education, productivity, as well as adverse effects of past spending cuts and Brexit.

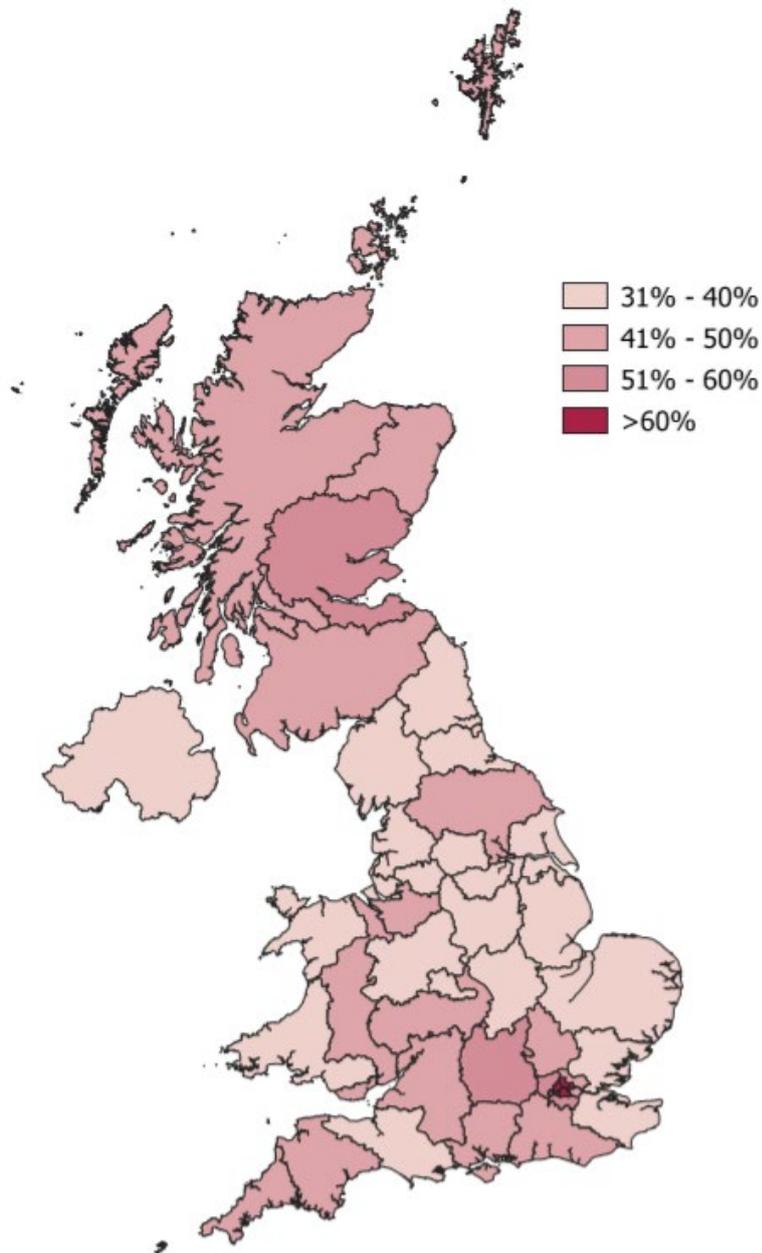
Education

- High regional dispersion in education outcomes are a key driver of income and well-being. Most of the variation in wages and local economic performance is driven by differences in skill levels of people. There is a lot of evidence on the skill premia attached to graduate education, and areas that have high concentrations of highly educated workers tend to have higher productivity and wages. International evidence has shown that increasing the quality of education would improve the employability of the labour force, but other policies would be needed to improve job quality in regions with low-skilled jobs.
- In the UK about 43% of the working population aged 25 - 64 have a tertiary degree. Regions in the UK with the lowest share of tertiary graduates are the North East and West Midlands (33%) while the highest can be found in the South East, Scotland (both 47%) and London (57.5%). See **Figure 7** for a detailed map of regions in the UK.
- The lack of suitable skills can also be a drag on productivity when employers are unable to fill jobs with workers that have the right skillset. This skill shortage appears to be more of a concern in some places than in others. For example, following the latest Employer Skills Survey, 31% of total

vacancies in the UK in 2017 are for high-skilled workers, while 17% of employers report skill gaps among employees, or vacancy issues related to skill shortages.

- Further information on the education can be found in the NIESR election briefing on [“Education policy priorities and a look into the Manifestos”](#).

Figure 7. Proportion of population with university degree across NUTS-2 regions, 2018.



Source: Authors' calculations based on Eurostat data.

Productivity is the main factor explaining regional differences in GDP per capita

- Productivity is the main factor explaining differences in output per person across UK regions. Differences in labour market participation and employment can also play a substantial albeit smaller role. For example, a higher unemployment rate in the North East helps explain lower levels of GDP per person while in Northern Ireland it is lower labour market participation.
- The UK exhibits large regional disparities in productivity compared to most other OECD countries, with a large gap between London and most other regions (see **Figure 8**), which is a drag on overall productivity, which has stagnated in the UK following the financial crisis.
- London has the highest level of labour productivity (measured in output per hour worked), followed by the South East, Scotland and the West Midlands. Wales, the North East and Northern Ireland, all have much lower levels of productivity. The most productive and largest manufacturing sector is that of the North West, followed that of the South East and Scotland.
- Regional productivity outcomes are also reflection of the differences in industry structure prevalent across regions. Figure 8 shows that the differences in productivity are more marked in the service sector (excluding finance), which represents approximately three-quarters of the UK economy. London's service sector is 25 per cent more productive than the UK average. At the same time, the East Midlands, Northern Ireland and Wales are around 20 per cent less productive than the national average.
- Knowledge-intensive sectors in London have a higher productivity and are also larger compared to the rest of the country. London's information and communication sector comprises almost 10 per cent of total jobs. London is followed by regions such as the North East, the North West and the West Midlands in ranking of productivity in this sector, but where it accounts for less than 4 per cent of the total jobs.
- London's finance sector is almost forty per cent more productive than the UK average, and also the largest. The finance sector accounts for 377,000 jobs in London, equal to 7 per cent of total London jobs; this is in contrast with 3.3 per cent in the rest of the UK.
- Regional productivity differences in large sectors such as the distribution sector are more minor.
- The most productive and largest manufacturing sector is that of the North West, accounting for over 330,000 jobs, followed by the West Midlands (305,000 jobs) and the East Midlands (286,000). Lower levels of manufacturing productivity are found for the East Midlands, Northern Ireland, and Yorkshire and the Humber.
- With regards to other industries, the London and the South East construction sectors are also the most productive ones, but the differences with other regions appear smaller. The highest levels of labour productivity in other production activities, which includes agriculture, mining and utilities are again found in London and the South East, as well as in the North East.

Figure 8: Labour productivity in manufacturing and services sectors (excl. finance) across UK regions, GDP per hour, 2017.

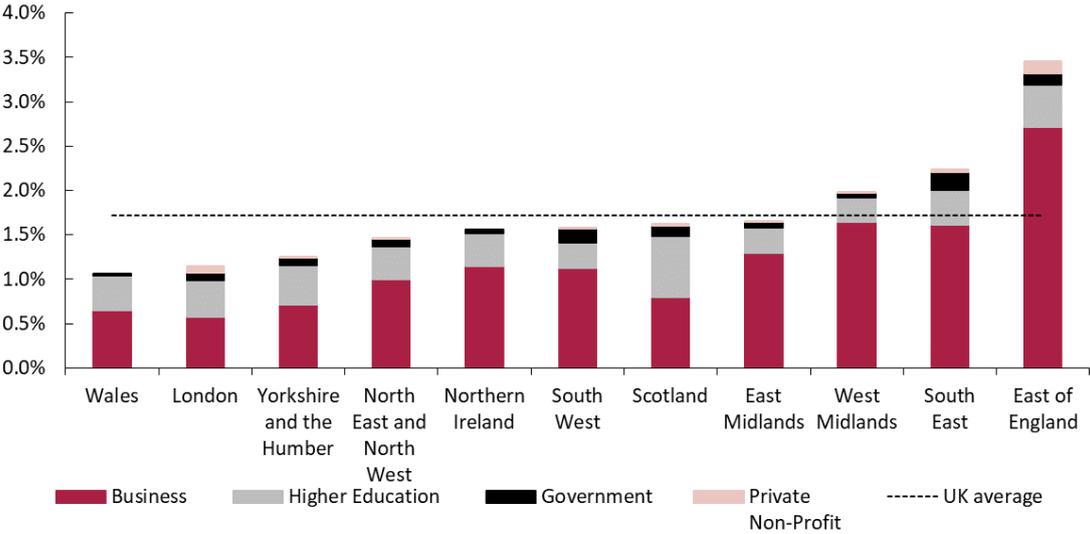


Source: Authors’ calculations based on ONS data.

Lower innovation effort in most UK regions

- Spending on research and development (R&D) is commonly used as a proxy for the level of innovative activity that is conducted in a place. Higher spending on R&D tends to translate into better innovation outcomes (e.g. new products or production processes) that raise the competitiveness of firms. More competitive firms tend to have higher revenues, productivity, wages and contribute more to regional economic development, e.g. via business taxes.
- In the UK, average spending on R&D is 1.7% of GDP, of which 1.2% is conducted by private businesses, 0.4% by higher education institutions and 0.1% by the government. Compared to other EU countries, [the UK ranks 11th](#) in terms of R&D expenditure as a share of GDP.
- However, the regional breakdown (**Figure 9**) of R&D spending reveals significant geographical concentration. The regions with the highest relative spending on R&D are the East of England, followed by the South East and West Midlands (all above national average). As a share of GDP, R&D spending is lowest in Wales, London and Yorkshire and the Humber.
- Looking at the regional distribution of R&D spending is important since the government’s [Industrial Strategy](#) has committed to raise the national average spending on R&D to 2.4% of GDP by 2027. There is scope for making the UK ‘more equal’ if R&D expenditure levels are raised relatively more in regions that currently have lower spending.

Figure 9: Spending on R&D as share of GDP across UK regions, 2017

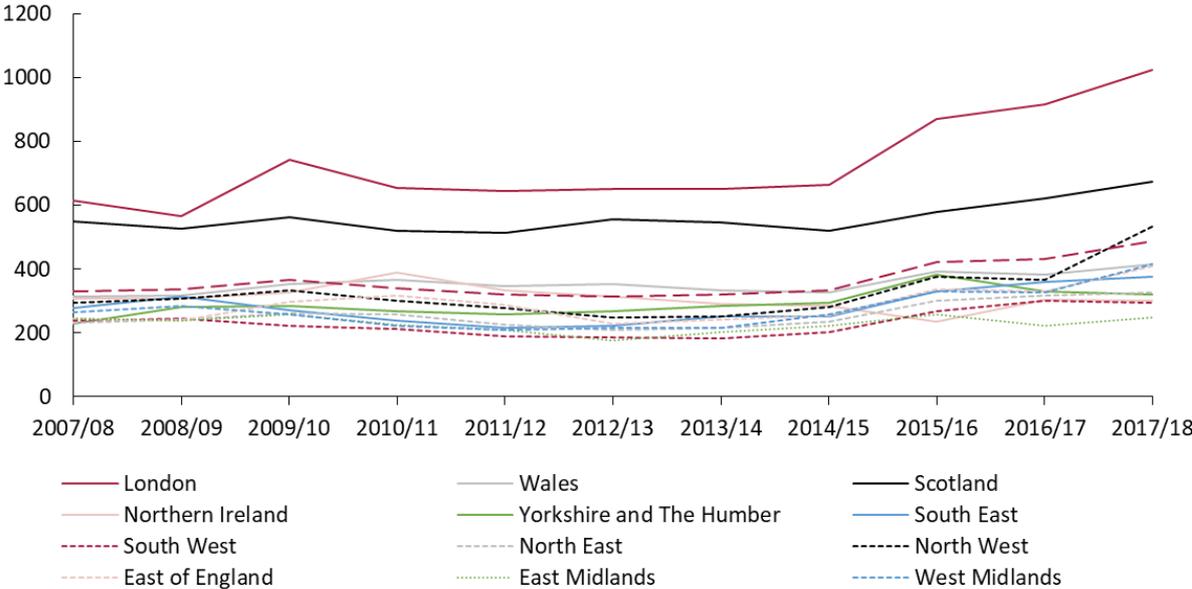


Source: Authors’ calculations based on ONS data.

Underinvestment in infrastructure

- Infrastructure spending is unevenly distributed across regions as shown in **Figure 10**. Average annual spending on infrastructure in the UK was £368 per person in the period 2007-18. In London average spending per person was £739, but only £227 in the East Midlands and £231 in the South West. The region with the second highest level of spending per person was Scotland (£562 per person), followed by Wales (£359 per person).
- Considering that all major parties have pledged to invest in transport infrastructure it is crucial to consider where this money will be spent, on what type of infrastructure and with what aim. There is a strong case to spend relatively more in places that have traditionally received less money per person. There is also scope to improve transport links for example, within and between regions outside of London.
- Crucially, plans to invest in infrastructure need to be integrated with other local and national policies, including education, business environment and access to cultural amenities. The extent to which infrastructure investment helps the people it was intended to help is not straightforward. If new infrastructure leads to increases in housing rents and house prices for example, or gentrification, it could lead to relatively disadvantaged people moving out.

Figure 10. Total public spending on transport infrastructure per capita across UK regions, 2007-18.

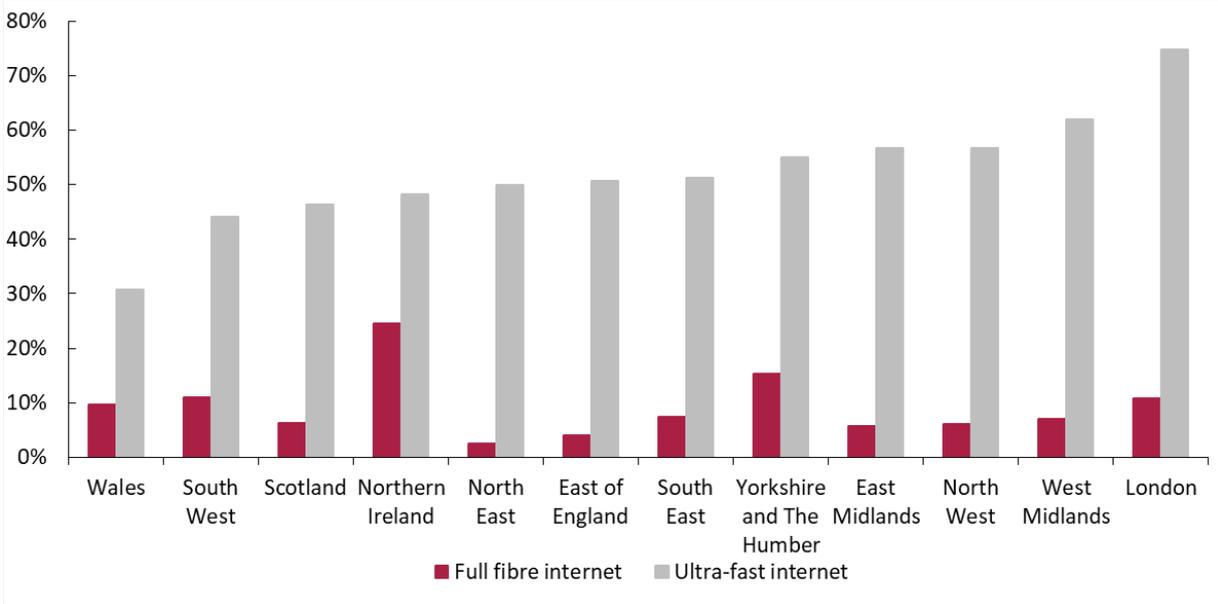


Note: Calculation based on data from IPPR North on historic total public spending on transport per capita - including revenue and capital, and from central and local government (private spending not included). Source: [Raikes and Lockwood \(2019\)](#).

Investment in digital infrastructure

- Around 95% of premises in the UK have access to superfast broadband internet (download speeds above 30Mbit/sec). This figure decreases to 54% for ultrafast broadband (download speeds above 300Mbit/sec) and only 8.4% for full fibre (download speeds of up 1 Gbit/s).
- **Figure 11** shows the coverage of ultrafast broadband and full fibre connections broken down by region. London appears to be the clear leader in terms of the share of premises with ultrafast broadband access (75%), followed by the West Midlands (62%). However, only 11% of premises in London have access to full fibre connections. Leaders in terms of full fibre deployment are Northern Ireland (25%) and Yorkshire & The Humber (15%), followed by the South East (11%). Regions with the lowest rate of full fibre are the North East (2%) and East of England (4%).
- Considering that digital technologies are becoming ever more important in people’s personal and professional lives it is obvious that a lack of access to fast internet is a driver of geographic disparities. Speeding up the coverage of ultrafast and full fibre internet for everyone in the UK may help to reduce regional disparities as the current access to high-speed internet is unevenly distributed across the country. However, any plans to roll out faster internet across the UK needs to consider the emergence of newer technologies such as 5G mobile broadband internet.

Figure 11. Share of premises covered by full fibre and ultra-fast broadband internet, by UK region, 2019.

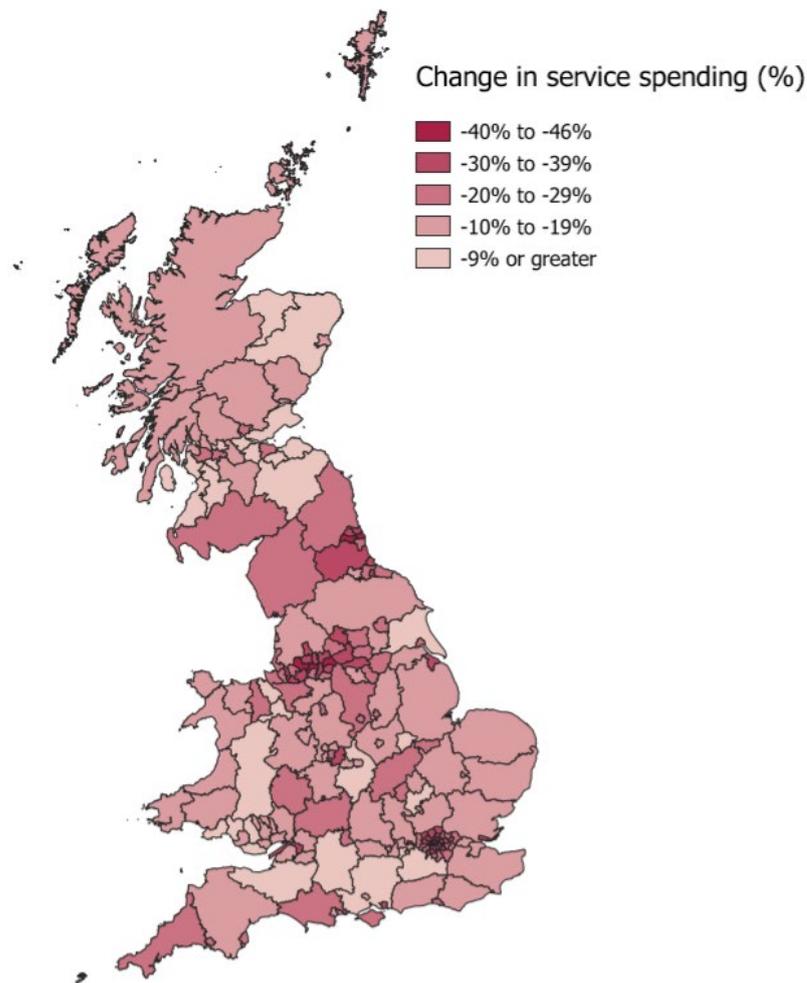


Source: Authors' calculations based on OFCOM data.

Brexit and spending reductions

- Since 2010 there have been across the board budgets cuts to almost all government departments. The Department of Communities and Local Government [experienced the largest cuts](#), losing over half of their funding between 2010/11 and 2015/16. The effects of reduced spending have been very uneven spatially as shown in **Figure 12**. The figure shows that cities experienced the largest spending cuts. London boroughs, Liverpool, Leicester, Nottingham, Birmingham, all received a high proportion of their funding from the central government and experienced cuts of over 25% to total service spending. In relative terms, Scotland and Wales have not experienced the same degree of cuts to spending as in England.

Figure 12: Change in government service spending in Wales, Scotland and England, 2009-10 to 2016-17.

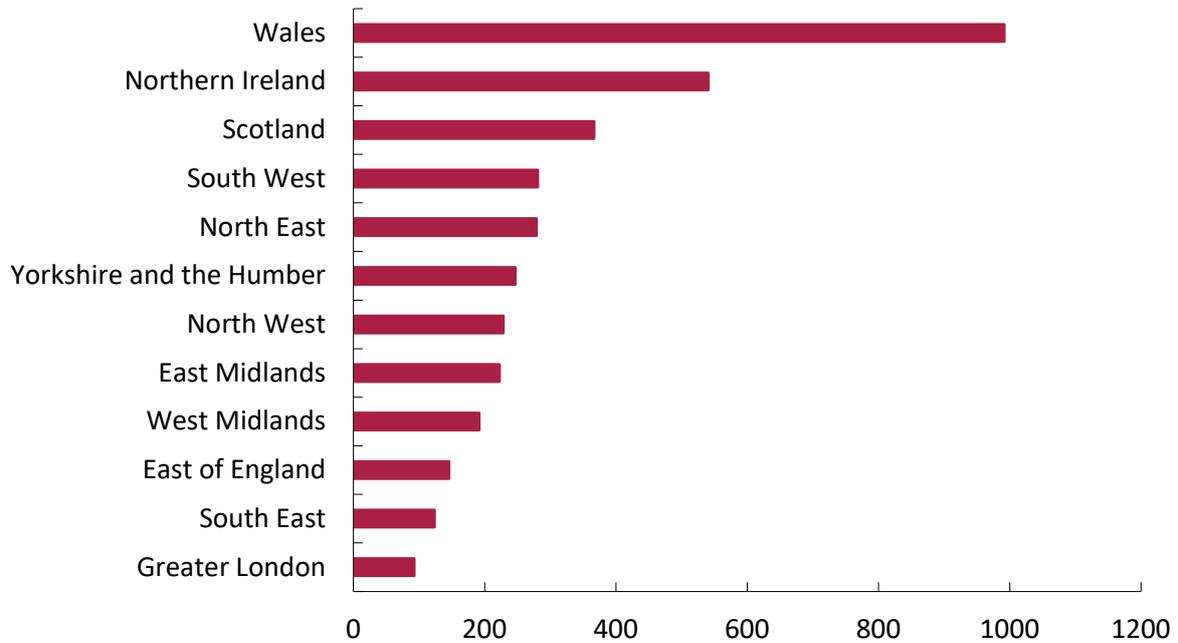


Notes: The Welsh data show service spending, excluding education spending and housing benefits. The Scottish data exclude education spending. The English data exclude police, fire, public health, education, and elements of social care spending. Source: [Amin-Smith et al. \(2016\)](#).

- Public and private sector organisations in the UK receive funding from the EU through a variety of different funds, which are targeted at the most deprived areas. In 2017 alone the UK received a total of about £5.5 billion. These funds are a prime example of an explicitly place-based as opposed to people-based policy.
- The two main channels through which the UK receives funding are from the European Structural and Investment (ESI) funds and the European Agricultural Guarantee Fund. The main ESI funds the UK receives funding from are the European Regional Development Fund (ERDF) and the European Social Fund (ESF). For the 2014-2020 funding round, the UK has been allocated €17.2b and €22.5b respectively.
- **Figure 13** shows how these funds have been distributed regionally and are on a per capita basis. At both regional and sub-regional level poorer areas tend to receive a larger proportion of these funds than richer areas in both per capita and absolute terms.
- According to a [House of Commons Library briefing](#) the UK Government has guaranteed all funding from the EU until the end of 2020, regardless of whether it concludes a deal with the

EU. Whether there will be any participation in EU funding programmes beyond this period is clearly the subject of further negotiations with the EU. To the extent that these funds have been effective and contributed to an evening out of disparities across the UK, the loss of these funds is likely to increase spatial inequality, holding everything else equal.

Figure 13: EU Structural Funds spending per person (in '000) and region for 2007-13 spending round.



Notes: The graph shows payments to UK regions from the ERDF, EAFRD/EAGGF and ESF. Deflated by CPI inflation and divided by annual population estimates from Eurostat. Source: <https://cohesiondata.ec.europa.eu/Other/Historic-EU-payments-regionalised-and-modelled/tc55-7ysv/data>