Reviving the ‘Northern Powerhouse’

Rebalancing the economy and closing the productivity gap between Northern cities and London demands radical reform of Britain’s political economy, reducing London’s dominance.

Policy implications

- Policies such as the creation of a ‘Northern Powerhouse’ or a partial devolution of fiscal powers and policies will only have a limited impact on reducing the divide, due to the deep-seated London-centric bias in Britain’s political economy.

- A radical rethink of the organisation of national economic policy and policymaking is long overdue, preferably involving a nationwide federated system of regional economic/industrial strategy institutions. Regional arms of the Bank of England, Treasury and other key central government departments should also be established to support these regional economic institutions.

- Changes in devolution and economic policy should be based on a detailed analysis of the most effective political and geographical configuration across the UK.

- The proposed ‘combined authority’ model of devolution – enabling joint working between two or more councils – is difficult to embed within the current complex two-tier layering of local political power and responsibilities.

- Vastly improving the transport infrastructure among Northern cities would help them to function more as a large agglomerated market for goods and labour, and would be much more effective than the proposed High Speed 2 rail link to London.

About the research

A challenge for the UK economy is the low productivity of many cities in Northern England. Most of these cities have labour productivity levels below the national average – while most Southern cities have levels above the average. The shift away from an industrial economy eroded the Northern cities’ manufacturing export base, and they have yet to rebuild around service-based exports at a similar scale.

According to conventional economic theory, market forces should over time ‘self-correct’ large spatial disparities in economic performance and prosperity through the free movement of labour and capital. Despite this, the divide between the more prosperous London and the South East regions, and the regions making up the ‘Northern Powerhouse’ (the North West, Yorkshire and Humberside, and the North East), is as pronounced as ever.

A report from the City Evolutions research project highlights that the imbalance is not merely economic, but extends to political, financial and administrative power. London has benefitted from hosting all of the key economic, financial and political institutions that govern the economy and determine national economic policy – leading to a London-centric bias in the UK economy.
Key findings

- Although the problem of ‘spatial imbalance’ in the British economy intensified during the 1992-2007 growth period, this imbalance goes much further back – at least to the 19th century.

- During the 1970s and 1980s there was a dramatic decline in jobs for the manufacturing export sectors that far outweighed the increasing demand for employment in exporting knowledge-intensive business services (KIBS) such as finance. Only in London has the growth in the KIBS export base more than compensated for the decline of the manufacturing export base in terms of employment.

- Despite the deindustrialisation, the major Northern Powerhouse cities (except Manchester) still export more manufactured goods than services. They haven’t built tradable, high-value service activities sufficiently to compensate for the loss of manufacturing capacity.

- All of the Northern core cities, except Leeds, have lagged well behind the national economy as a whole since the beginning of the 1970s, for both employment and output growth. Since the mid-1990s they have followed national economic growth more closely, but have failed to recover lost ground.

BRIEF DESCRIPTION

Researchers from the ESRC-funded City Evolutions project have examined the history and drivers of the economic imbalance and productivity gap between Northern cities and London/South East England, in the context of deindustrialisation and increasing London-based concentration of economic, financial and political activity.

Ron Martin, Ben Gardiner: Reviving the ‘Northern Powerhouse’ and Spatially Rebalancing the British Economy: The Scale of the Challenge (City Evolutions working paper)

Web: www.cityevolutions.org.uk/working-paper-reviving-the-northern-powerhouse

FURTHER INFORMATION

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The research for this paper was undertaken as part of the City Evolutions project, funded by the ESRC through the Urban Transformations programme.
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The views expressed in this evidence briefing are those of the authors and not necessarily those of the ESRC.

A radical rethink of the organisation of national economic policy should involve a nation-wide federated system of regional institutions.