

Reviving the ‘Northern Powerhouse’ and Spatially Rebalancing the British Economy: The Scale of the Challenge

Ron Martin and Ben Gardiner

Abstract George Osborne’s Northern Powerhouse agenda was based on the idea that Northern cities are ‘individually strong but collectively not strong enough. The whole is less than the sum of its parts’. Few would probably disagree with the basic intent and aspiration behind this declaration, or that the UK economy has become too dominated by London, but this chapter argues that both the dominant diagnosis of the problem, and the main policies being advanced to solve it, are more debatable. It is in fact questionable whether Northern cities are as economically strong ‘individually’ as Osborne’s claim suggests. There is more to a city’s economic success than just size and density, and the argument that greater connectivity to London promised by the High

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C. Berry and A. Giovannini (eds.), *Developing England’s North*, Building a Sustainable Political Economy: SPERI Research & Policy, https://doi.org/10.1007/978-3-319-62560-7_2

Speed 2 rail project will benefit Northern cities is highly contestable. Moreover, devolution could even intensify economic and social disparities both among Northern cities themselves and in relation to the more advantageous position of London with regard to fiscal devolution. The lagging performance of Northern cities (and regions) and the challenge confronting their catch up with London need to be understood in terms of the historical development of the national political economy, and how that development has favoured a certain disposition towards and role in the evolving process of globalisation.

Keywords Agglomeration · Economic development · Exports
Northern cities · Northern Powerhouse · Regional inequality

From the late 1970s and early 1980s onwards a very particular model of economic growth was championed across many of the advanced nations, and indeed beyond.¹ Based on deregulation, privatisation, financialisation and enthusiastic belief in ever-deeper free market globalisation, this model was hailed as finally bringing an end to recessions and inflation, driving a new age of stable growth; what in the USA became labelled as the ‘Great Moderation’ (Bernanke 2004), and in the UK as a new ‘NICE’ era (of *non-inflationary continued expansion*).² Above all, it was a model driven by a dramatic and seemingly unstoppable expansion of finance and banking. Banks made record profits, the world’s financial centres prospered, and many regions and cities, indeed whole nations, experienced rapid growth on the back of the booming housing and real estate markets that the banks were eager to fund and profit from. In the UK, the financial success of London was openly celebrated by the Labour government at the time, and even held up as a model for the rest of the country to follow. As then Chancellor of the Exchequer, Gordon Brown, argued in his Mansion House speech in June 2007:

I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created.... [M]ost importantly of all in the new world order... [t]he financial services sector in Britain, and the City of London at the centre of it ... shows how we can excel in a world of global competition. Britain needs more of the vigour, ingenuity and aspiration that you [London’s financial class] already demonstrate is the hallmark of your success. (Brown 2010)

No sooner had this praise been lavished, however, than the economic boom on which it was based was brought to an abrupt halt. The financial crisis revealed the boom for what it was, a form of development that was highly *unbalanced*: on a global level, between creditor and debtor nations (especially China and the USA respectively); within the Eurozone, between the strong core members such as Germany and France, and the weaker peripheral members such as Spain, Italy and Portugal; and within countries, between consumption and investment, between services and production, between state revenues and spending, between rich and poor, and, spatially, between different cities and regions. For while the 'long boom' between the early 1990s and 2007 may have lifted most regions and cities, it lifted some much more than others. Indeed, in some instances (the UK is a particularly prominent case) it reinforced regional inequalities.

In recognition of these inequalities, since 2010, when the Conservative–Liberal Coalition Government came to power, a new spatial imaginary has risen to the fore in UK government policy thinking on the need to 'spatially rebalance' the national economy. The argument is that the financial crisis of 2007–2008 had exposed the fact that the economy had become too dependent for growth on a narrow range of activities—especially finance—and on one corner of the country, namely London and the Greater South East. As David Cameron, shortly after he had been elected Prime Minister, opined:

Our economy has become more and more unbalanced... Today our economy is heavily reliant on just a few industries and a few regions – particularly London and the South East. This really matters. An economy with such a narrow foundation for growth is fundamentally unstable and wasteful – because we are not making use of the talent out there in all parts of our United Kingdom. (Cameron 2010)

The Deputy Prime Minister, Nick Clegg, held to a similar view:

For years, our prosperity has been pinned on financial wizardry in London's Square Mile, with other sectors and other regions left behind. That imbalance left us hugely exposed when the banking crisis hit. And now Britain has a budget deficit higher than at any time since the Second World War. It is time to correct that imbalance. We need to spread growth across the whole country and across all sectors. (Clegg 2010)

And yet more recently, Theresa May, David Cameron's successor as Prime Minister, once again stressed the need to secure

an economy that's fair and where everyone plays by the same rules. That means acting to tackle some of the economy's structural problems that hold people back. Things like the shortage of affordable homes. The need to make big decisions on – and invest in – our infrastructure. The need to rebalance the economy across sectors and areas in order to spread wealth and prosperity around the country. (May 2016)

The coalition government's initial response was to prosecute a new localism, a new 'local growth agenda' (H.M Government 2010). Local Enterprise Partnerships (to replace the previous Regional Development Agencies) were established, together with a regional growth fund, local enterprise zones, city deals and various other measures, all intended to promote local growth and greater 'spatial balance' across the economy. And then, from mid-2014 onwards, then Chancellor George Osborne began to talk of his offensive to promote what he called a 'Northern Powerhouse' to rival London in scale and dynamism:

Something remarkable has happened to London over these recent decades. It has become a global capital, the home of international finance, attracting the young, the ambitious, the wealthy and the entrepreneurial from around the world in their tens of thousands. And it's a great strength for our country that it contains such a global city... But something remarkable has happened here in Manchester, and in Liverpool and Leeds and Newcastle and other Northern cities over these last thirty years too. The once hollowed-out city centres are thriving again, with growing universities, iconic museums and cultural events, and huge improvements to the quality of life... The cities of the North are individually strong, but collectively not strong enough. The whole is less than the sum of its parts. So the powerhouse of London dominates more and more. And that's not healthy for our economy... We need a Northern Powerhouse too. Not one city, but a collection of Northern cities—sufficiently close to each other that combined can take on the world. (Osborne 2014)

However, at the same time the government has also been anxious that the growth of London is not hindered or compromised in any way. Herein lies a key conundrum: how to achieve a greater degree of 'spatial balance' in the economy whilst also wanting to protect and enhance the gains from spatial agglomeration of economic activity and growth in the already prosperous London–South East mega-region. Much of the debate surrounding this issue has revolved around a stark question: is London good

or bad for the rest of the UK? On the one side are those who point to the benefits of the Greater London economic machine in generating demand for goods and services in the rest of the UK, as a vital source of export earnings, and as a major contributor to the taxes needed to help fund welfare payments and public spending across the nation as a whole (see for example City of London Corporation [2011, 2014](#)). But on the other side are those who see London as akin to a 'country apart', even a quasi-independent 'city-state', as a region which has become increasingly detached from the rest of the UK in terms of its level of prosperity, its economic growth, its global orientation and its cyclical behaviour (Deutsche Bank [2013](#)). Some go further, and regard it as having become a sort of 'economic black hole', sucking in key human and financial resources from, and to the detriment of, the rest of the country. For example, Vince Cable, when he was Secretary of State for Business in the Coalition Government, was quite emphatic that

One of the big problems that we have at the moment... is that London is becoming a kind of giant suction machine, draining the life out of the rest of the country. (Cable [2013](#))

A similar view was subsequently voiced by Scotland's First Minister:

London has a centrifugal pull on talent, investment and business from the rest of Europe and the world. That brings benefits to the broader UK economy. But as we know, that same centrifugal pull is felt by the rest of us across the UK, often to our detriment. The challenge for us all is how to balance this in our best interests – not by engaging in a race to the bottom, but by using our powers to create long-term comparative advantage and genuine economic value. (Sturgeon [2014](#))

This 'spatial imbalance' in the UK economy, of an economy tipped too far in favour of London and the South East, is not in fact some new or recent feature, but a long-standing problem, one that goes back to the Victorian period if not earlier. We have been here before, repeatedly. As early as 1919, Sir Halford Mackinder, successively a prominent Oxford political geographer, Director of the London School of Economics, and Liberal Unionist (Conservative) MP, had argued for a more 'balanced' national socio-economy:

As long as you allow a great metropolis to drain most of the best young brains from the local communities, to cite only one aspect of what goes on, so long must organizations centre unduly in the metropolis and become inevitably an organization of nation-wide classes and interests. (Mackinder 1919)

Barely two decades later, in equally direct terms, the milestone report of the Barlow Commission in 1940 on the distribution of the nation's industrial population expressed a similar view, again in language highly prescient of that used by Vince Cable nearly 75 years later:

The contribution in one area of such a large proportion of the national population as is contained in Greater London, and the attraction to the Metropolis of the best industrial, financial, commercial and general ability, represents a serious drain on the rest of the country. (Barlow Commission 1940)

How, then, to 'power up' the economies of the country's Northern cities in order to reduce this dominance of London? What is the scale of the challenge? In the remainder of this chapter we focus particularly on this latter question. We start by showing how a North–South pattern of spatial economic imbalance—of a more prosperous London and South East, and a lagging North and West—was already well established in the nineteenth century. We then move forward to the period since the beginning of the 1970s. Using novel data, we show how major Northern cities have lagged behind in terms of growth of employment, output and productivity over the past 40 years or so. A crucial aspect of the issue is shown to be the dramatic decline in the manufacturing export base of the Northern cities, and, unlike London, their failure to replace this shrinking base on a sufficient scale with new tradable activities (see also Berry's chapter in this volume). This problem is not readily attributed to Northern cities being 'too small' as some observers have claimed. What is arguably more important is the fact that London has long enjoyed the position of hosting all of the key economic, financial and political institutions that govern the economy and determine national economic policy.

Spatial imbalance in the UK is not just an economic issue: it is also one of the major spatial imbalances in the location and operation of the key levers of economic, financial, political and administrative power. The UK is one of the most politically centralised countries in the OCED: it

is surely not simply coincidental that it also has one of highest levels of regional economic inequality. What emerges from our brief analysis in this chapter is that spatial economic imbalance is in fact an entrenched, persistent and indeed institutionalised feature of the national economy, and as such is a major challenge for policymakers. Although new policies are being introduced that are aimed at spatially rebalancing the economy—including the creation of a 'Northern Powerhouse' to rival that of London—and even a partial devolution of fiscal powers and policies to cities is underway, we conclude that these will have only a limited impact on what has long been a systemic and deep-seated London-centric bias in Britain's national political economy. We begin our narrative with some economic history.

THE LONG-STANDING NATURE OF BRITAIN'S SPATIALLY UNBALANCED ECONOMY

According to many economic historians and geographers, during the nineteenth century it was the towns and cities of Northern England—in the regions of the North West, North East and Yorkshire–Humberside—that were the country's economic 'powerhouses'. Throughout the long Victorian period, so the argument runs, 'the North' was the most dynamic and prosperous part of the country, centred on the growth of key export-based industries, especially cotton and woollen textiles, ship-building, and heavy engineering equipment and manufactured products, associated with the expansion of Empire and Britain's domination of international trade. For example, back in the 1880s, the Lancashire cotton mills ranked as one of wonders of the industrial world. Much of the Victorian industrial economy was located in the Northern towns and regions of the country. Unemployment was primarily a problem of the 'South', with its difficulties of agricultural depression and the decline of old-craft industries, especially in London.

Immediately following the First World War, however, the story continues, adverse shifts in Britain's world trade position imposed severe shocks on the industrial North. The decline of Empire and the rise of new international competitors, such as the USA, Germany and Japan, combined with a lack of technological modernisation in Britain's old staple industries, restrictive domestic economic policies and recurrent deep recessions in the 1920s and early 1930s, resulted in structural decline

Table 2.1 Regional shares of UK GDP 1861–1911

	<i>1861</i>	<i>1881</i>	<i>1911</i>
London	17.1	19.9	20.1
South East	11.2	10.9	13.1
East Anglia	3.1	2.4	2.2
South West	8.1	6.1	5.9
East Midlands	4.7	4.6	5.4
West Midlands	7.1	6.9	6.8
Yorks–Humberside	6.8	7.3	7.7
North West	11.1	13.3	13.7
North	4.1	5.2	5.3
Wales	4.3	4.2	4.4
Scotland	10.3	10.4	9.5
Ireland	12.0	9.3	5.8
UK	100.0	100.0	100.0

Source Geary and Stark (2015)

Note Because of the lack of consistent data for Northern Ireland, Geary and Stark use Ireland to define the UK

and the emergence of acutely high unemployment in many Northern towns and cities. Meanwhile, the ‘new growth industries’ of the period, based on light engineering, motor vehicles, and a variety of electrical and mass consumer goods, became clustered in London, the South East and the Midlands (Scott 2007). Hence, according to these same economic historians, a major reorientation occurred in the geography of the British economy: ‘in terms of many of the basic measures of social inequality, the geography of the country had to a large extent been reversed’ (Massey 1986: 31) The old geography of sectoral specialisation and economic organisation, which had favoured the North, was being replaced by a new and different pattern of sectoral specialisation and organisation that favoured the South.

While many aspects of this historical narrative are correct and well-documented, there is also more recent evidence that suggests that some important qualifications and modifications are called for. New analyses by leading economic historians suggest that the argument that the national economy was led by the North up until the interwar years, when the South suddenly took over that role, may be exaggerated, and that in fact even by the middle of the nineteenth-century London had already pulled well ahead of the North of the country in terms of output and prosperity (see Tables 2.1, 2.2; also Crafts 2005; Geary and Stark 2015, 2016).

Table 2.2 Spatial imbalance in the British economy, 1901–1931 Regional GDP per capita relative to the average (GB = 100). Geary–Stark estimates

<i>GB = 100</i>	<i>1901</i>	<i>1911</i>	<i>1921</i>	<i>1931</i>
London	134.2	133.8	137.4	144.3
South East	107.0	104.1	101.2	114.0
East Anglia	83.7	83.5	83.5	82.7
South West	91.7	92.4	91.3	92.3
East Midlands	92.4	97.2	88.6	86.6
West Midlands	86.0	90.5	82.1	95.7
Yorks–Humberside	88.3	90.1	93.6	86.4
North West	103.7	104.8	109.3	88.6
North	85.8	83.0	83.1	81.1
Wales	80.3	82.1	76.5	81.1
Scotland	90.5	86.9	92.3	94.3
Coefficient variation (%)	16.9	16.6	18.5	22.6

Source of data Geary and Stark (2015)

Note Geary and Stark use a Great Britain index base for this set of results, rather than a UK one in their analysis shown in Table 2.1. Again, the lack of consistent data for Northern Ireland precluded inclusion of this region

London was the single largest centre of manufacturing industry in the country, even though for the most part it consisted of small-scale factories and workshops. The city also had the nation’s largest port and docks. In addition, and crucial in determining the city’s subsequent economic development several decades later, even by the early nineteenth-century London had become firmly established as the nation’s trading and financial capital, and indeed one of the world’s most important financial centres, having taken over that role from Amsterdam. Up until the middle of the nineteenth century, the British banking system had been a regional and county-based system, but through merger, acquisition and amalgamation, and successive waves of local bank closures, by the close of the century most of the surviving major banks had become headquartered in London, where the primary institutions of the Bank of England, Lloyds Insurance and the main Stock Exchange had been established more than two centuries earlier.

Similarly, the spatial distribution of middle- and upper-class wealth in nineteenth-century Britain was not concentrated in the industrial towns of the North, as is often claimed,³ but rather was focused on London (Rubenstein 1977, 1981). The importance of Northern trading cities such as Liverpool, Manchester, Leeds and Glasgow notwithstanding,

more than 50 per cent of middle-class income in Victorian times was accounted for by London. This was due not just to its larger middle-class population, but also to its higher middle-class per capita income. This brief excursion into economic history is not intended to refute the undoubted industrial success of much of Northern Britain in the nineteenth century, and the crucial role that many Northern towns and cities—such as Manchester, Liverpool, Leeds, Sheffield, Newcastle, Hull and Glasgow—played in the Industrial Revolution, the Victorian economy and the development of empire that took place in that era. They were unquestionably successful and were certainly industrial powerhouses. However, as the new analyses by Crafts (2005) and Geary and Stark (2015, 2016) show, while the North West was certainly the second or third wealthiest region in the country, and while a distinct shift towards London and the South East definitely occurred in the interwar period, the fact of the matter is that London was already in a league of its own by the middle of the nineteenth century. Doubt can thus be cast on the view that it was only in the interwar years that economic advantage ‘suddenly shifted’ to the South. London and the South East were established as the most prosperous areas of Britain well before the reorientation of the national economy that took place in the 1920s and 1930s. It was precisely because these regions were already positioned as the prosperous core—in which the nation’s major financial, political and economic institutions were already well established—that they attracted the bulk of the new industries that emerged in the interwar period. In a certain sense, the ‘greater London’ region—London and neighbouring parts of the South East—in effect ‘reinvented’ itself in those years, in as much that this part of Britain led ‘the new economy’ just as the North experienced the structural upheavals and decline of ‘the old economy’ inherited from the previous century.

What is clear is that the problem of spatial imbalance in the British economy that has become the focus of political concern and rhetoric since 2010 is in fact hardly new. It has roots that go back well into the nineteenth century, if not earlier. Thus, while our leading politicians have been correct to recognise that the British economy is too spatially unbalanced, with growth too dependent on and concentrated in London and much of the surrounding South East, and although the problem intensified during the long phase of uninterrupted growth between 1992 and 2007, the spatially unbalanced nature of the national economy is of much longer historical standing. This suggests that in explaining

the current pattern of spatial economic imbalance it is not sufficient to appeal to contemporary factors and causes, but also necessary to understand how the past has shaped the present: there is a strong degree of path dependence in regional economic development (see Martin and Sunley 2006). Furthermore, and a key element in making for such path dependence, past structures of spatial economic organisation can in effect become institutionalised and reproduced by the national political economy—the geographical configuration of national economic and political power and policy. This is a large part of the problem in the UK. We return to this issue later in the chapter. But first, we look at the economic performance of individual major Northern English cities over the past 40 years to get a sense of how they have fared relative to the rest of the country over this period, and hence the scale of the challenge of reviving the ‘Northern Powerhouse’ as a route to spatially rebalancing the British economy.

LAGGING BEHIND: THE RECENT ECONOMIC PERFORMANCE OF MAJOR NORTHERN POWERHOUSE CITIES

As Jane Jacobs (1984) famously argued, it is not possible to understand a ‘national’ economy without reference to the performance of the cities and city-regions of which it is composed. It is in cities and city-regions that the bulk of a nation’s wealth is created, its exports are produced, its jobs are located and its incomes are spent. It is perhaps somewhat ironic, therefore, that while national economic policy thinking has come to recognise the crucial role played by cities in shaping the nation’s economic fortunes and progress, UK governments have never collected regular or consistent data on the economies or economic performance of our cities. Our understanding of how economic growth has varied across urban Britain is surprisingly poor: we know relatively little about the productivity of our cities, their trade balances or the innovativeness of their economies. There is even a lack of general agreement about how our cities should be meaningfully defined geographically.

Constructing reliable and meaningful economic data series for British cities has been part of a major research programme with which we are involved. This is concerned, *inter alia*, with compiling consistent time series on some key dimensions of city economic performance—particularly employment, output and productivity—back to the 1970s. The complete

data set covers some 82 sectors of activity for 85 cities annually over the period 1971–2014. The cities are defined in terms of travel-to-work areas (using 2011 geographical definitions), and hence have a functional character. These are the most complete data series of their kind and enable us to provide some interesting insight into the comparative economic performance of individual cities and how that performance has varied over time.⁴

A useful way of exploring this issue is to compute the cumulative difference between the annual growth rate (for example, of employment and output) in a given city and the corresponding rate for the country as a whole.⁵ This allows comparison of cities one against another by reference to their performance relative to a national ‘yardstick’. The computed cumulative differential growth series for employment and output for the major Northern cores cities of Manchester, Liverpool, Leeds, Sheffield and Newcastle—the main cities that make up the ‘Northern Powerhouse’ area—together with London for comparison, are shown in Figs. 2.1 and 2.2. A number of key features are evident. First, it is

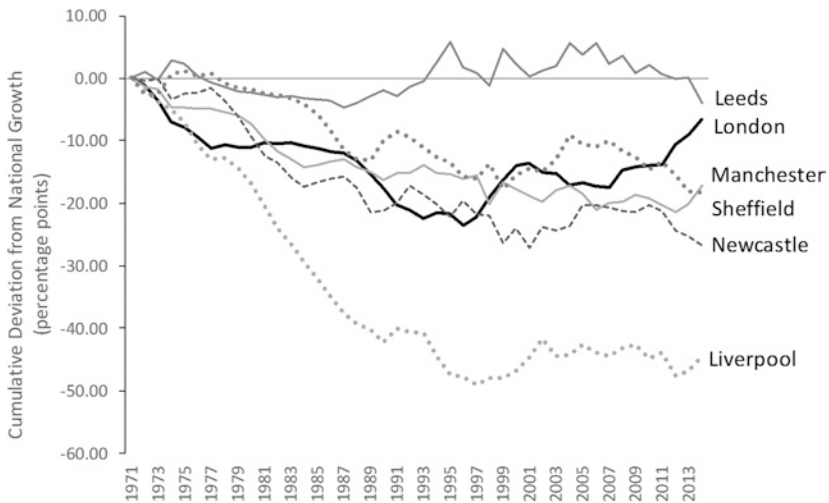


Fig. 2.1 Annual growth of employment in Northern Core Cities and London, 1971–2014: cumulative deviation from Great Britain average. *Source of data* Authors’ own data. See also Martin et al. (2016). *Notes* Total employment. Cities defined in terms of 2001 travel-to-work areas

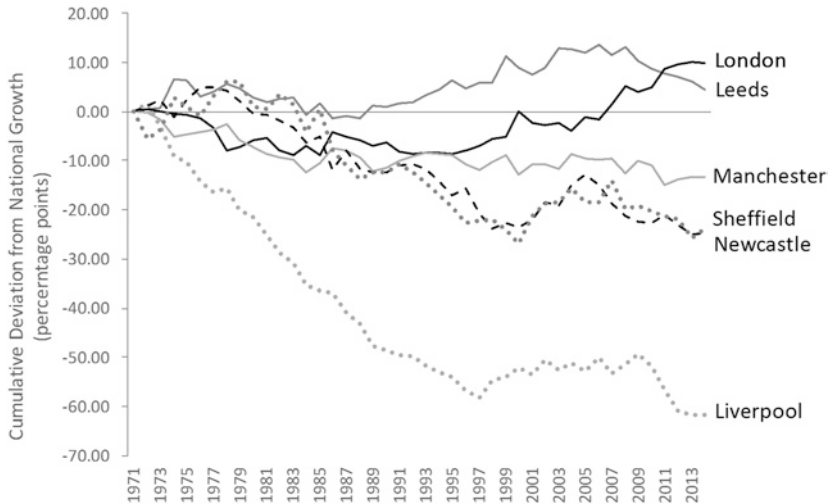


Fig. 2.2 Annual growth of gross value added in Northern Core Cities and London, 1971–2014: cumulative deviation from Great Britain average. *Source of data* Authors' own data. See also Martin et al. (2016). *Notes* Gross value added, workplace-based estimates. Cities defined in terms of 2001 travel-to-work areas

clear that for both employment and output growth, all of the Northern English core cities except Leeds have lagged well behind the national economy as a whole since the beginning of the 1970s, as indicated by their negative growth gaps. This was particularly the case up to the mid-1990s, since when they have tracked national economic growth more closely, but have failed to recover any of their cumulative lost ground to any significant degree. As a result, by 2014, cumulative growth in Manchester, Sheffield and Newcastle had fallen behind the Great Britain average by some 20 percentage points.

Second, the plight of Liverpool is particularly striking: its cumulative growth gaps are well over 40 percentage points on both employment and output. Third, Leeds emerges as the only Northern English core city to have more or less matched the growth record of the national economy as a whole over the 40-year period. In terms of output growth, in fact, from the late 1980s up to the recent recession its growth outstripped that nationally, and kept pace with London. And London's comparative

performance is itself of key interest. Up to the early 1990s it too lagged behind national growth, much more so in the case of employment than for output. However, since then it has undergone something of a major ‘turnaround’, experiencing much faster growth than the national economy, and the Northern cities, except Leeds in output terms, so that by 2014 it had almost eliminated its cumulative growth gap in employment, and turned its cumulative negative growth gap in output into a positive growth lead. What is also striking is that output growth recovered far more strongly in London after the 2008–2010 recession than in the Northern cities, including Leeds, which, like its other Northern counterparts, has been much slower to recover.

For any city, the comparative growth rates of output and employment define a corresponding rate of growth in labour productivity.⁶ Considerable concern has been expressed by the UK Government at the poor productivity performance of the national economy. The annual rate of productivity growth has in fact been on a downward trend since the late 1970s, in common with a number of other major advanced economies (Carmody 2013). There is a debate over the causes of this slowdown: whether it is due to the structural shift amongst the advanced economies from high-productivity growth manufacturing to lower productivity growth services, to a failure of advances in technology (especially computing) to show up in productivity, to a slowdown in transformative innovation itself, to a slowdown in investment, to a lack of a skilled workforce or to measurement problems (the argument that productivity in some service activities is possibly underestimated). Whichever of these possible causes has been operative, an additional dimension to the productivity problem in the UK is the low productivity of many Northern cities: most of these have labour productivity levels below the national average, while most Southern cities have levels above the average; and the disparity has a high degree of persistence over time (see Fig. 2.3).⁷ Moreover, the labour productivity in the major ‘Northern Powerhouse’ cities has remained consistently below the national average over the past four decades or more, while in London labour productivity has steadily pulled ahead of that for the national economy as a whole, so that, for example, there is now a 50 percentage point gap between London and Manchester (see Fig. 2.4).

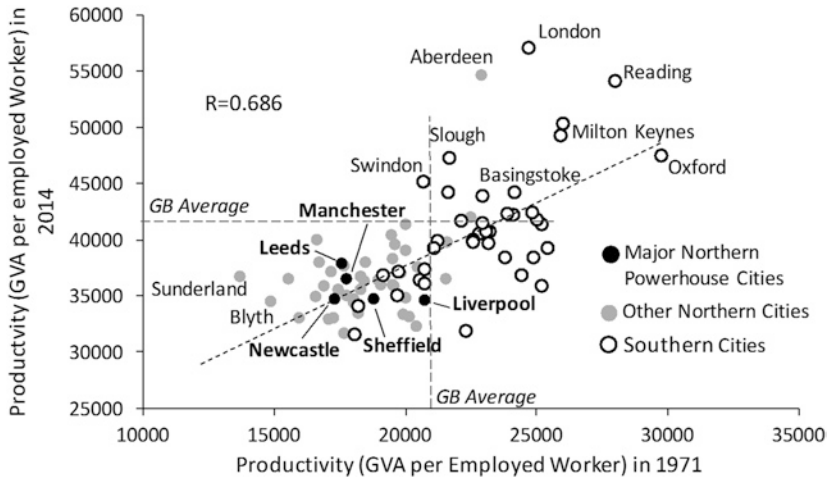


Fig. 2.3 Labour productivity across 85 British cities, 1971 and 2014. *Source of data* Authors' own data. See also Martin et al. (2017)

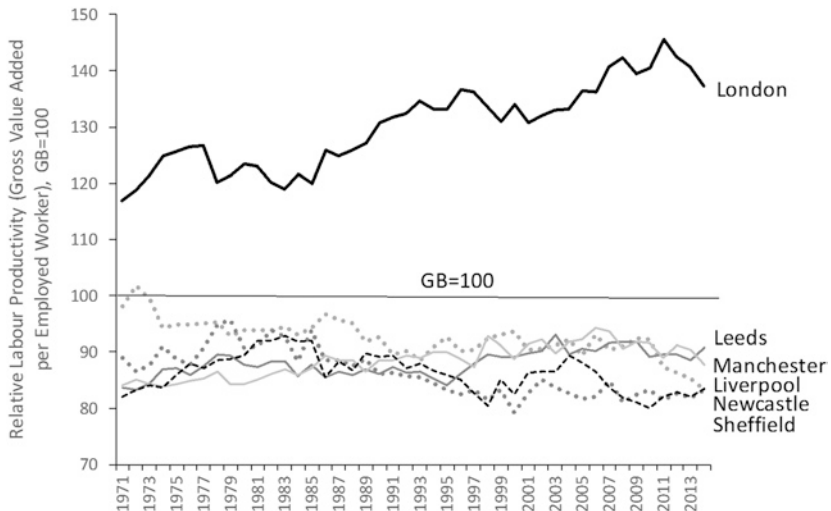


Fig. 2.4 Relative labour productivity (GVA per Employed Worker) in Northern Core Cities and London, 1971–2014, (Great Britain = 100). *Source of data* Authors' own data. See also Martin et al. (2017)

THE COLLAPSE OF AN EXPORT BASE

One of the key arguments in Jane Jacob's discussion of the importance of cities in the national economy is the role cities play in generating exports. This idea links closely of course with export-based theories of economic growth. In Kaldor's (1981) growth model, for example, other things being equal, the more competitive (in terms of productivity) an economy's export sectors, the greater will be the external demand for those exports, the faster will be the growth of output in those sectors (and via multiplier effects, the economy more generally). This growth in its turn will stimulate investment, innovation and labour productivity, which will boost competitiveness still further, which then stimulates additional demand for that economy's exports, and so on, in a circular and cumulative manner (see also Setterfield 1998; Martin 2017). Kaldor himself used this framework to explain regional differences in economic growth. A city's export or tradable base may thus be expected to play a crucial role in determining its growth performance.

Building on these ideas, Rowthorn (2010) argues that, in the absence of actual regional trade data, the 'export base' is a useful proxy because it 'consists of all those activities which bring income into the region by providing a good or service to the outside world, or provide locals with a good or service which they would otherwise have to import'. He therefore suggested that the 'export base' of a region could be approximated by the following sectors: agriculture, manufacturing, extractive industries, finance and business services, and hotels and restaurants. He goes on to argue that the much-debated 'North-South Divide' in the UK's economic landscape can be attributed to the fact that the North has seen a particularly severe decline in its manufacturing export sector while the Southern regions, particularly the Greater South East, have specialised more in high-end tradable services. In relative terms, he estimates that the cumulative decline of employment in the Northern private export base since 1971 has been around 30 per cent.

Using the detailed sectoral employment and output series referred to in the previous section, Martin et al. (2016) employ two definitions of a region's 'export intensity', based on those sectors that nationally export at least 50 and 25 per cent of their output overseas. Using the latter measure to define the export base of the three main regions making up the 'Northern Powerhouse', Fig. 2.5 confirms Rowthorn's general finding: in both Yorkshire-Humberside and the North West

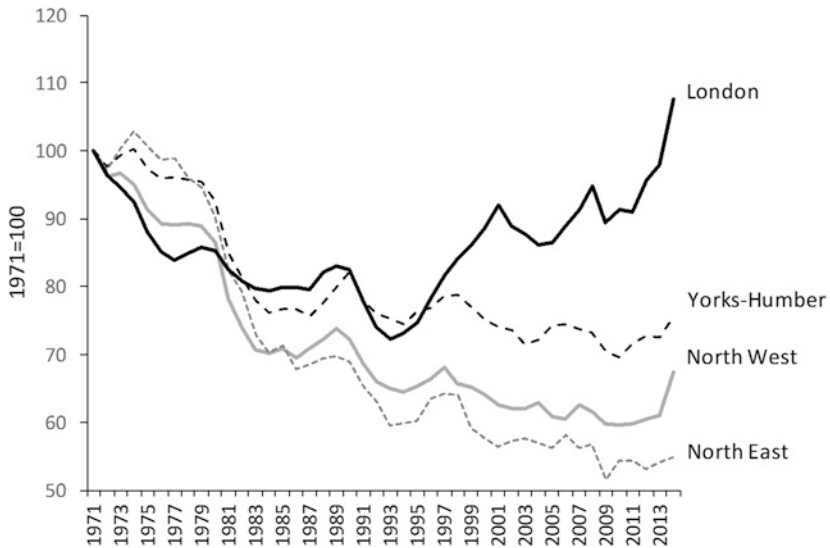


Fig. 2.5 Export base employment in the Northern Powerhouse Regions and London, 1971–2014 (Indexed 1971 = 100). *Source of data* Authors' own data

export-based employment has shrunk by around 25–30 per cent since the beginning of the 1970s, although in the North East region the contraction has been almost 50 per cent. A significant proportion of this decline occurred in the recessions of the early 1980s and early 1990s. In all three of the Northern Powerhouse regions, the erosion in export base employment was particularly rapid during the 1970s and first-half of the 1980s, precisely when these regions experienced pronounced deindustrialization. These trends stand in stark contrast to that for London. While London's export base employment also shrunk up until the early 1990s, it then underwent a major turnaround and increased sharply thereafter so that by 2014 it had more than made up for the previous decline. If we look at the major cities within the Northern Powerhouse regions, only Leeds shows a similar pattern: after witnessing a major fall in export base employment during the 1970s and 1980s, it too then experienced something of a recovery, although since the onset of the financial crisis in 2007 it has failed to keep up with the capital (Fig. 2.6).

A closer look at these trends by broad sector (Table 2.3) indicates that in the 1971–1991 subperiod, in London and all of the major Northern



Fig. 2.6 Export base employment in the Northern Core Cities and London, 1971–2014 (Indexed 1971 = 100). *Source of data* Authors' own data

Powerhouse cities the dramatic decline in employment in manufacturing export sectors far outweighed the increase in employment in exporting knowledge-intensive business services (KIBS), which include finance and related activities. While in all cases the scale of the absolute decline of employment in exporting manufacturing activities lessened during the 1991–2014 subperiod, only in three cities—London, Leeds and Manchester—was this loss offset by the increase in employment in exporting KIBS. Taking the period 1971–2014 as a whole, however, only in London had the growth in the KIBS export base more than compensated for the decline of the manufacturing export base in terms of employment.

The problem with using these export base employment estimates is that they assume that a given sector behaves in the same way in the regions and cities as it does nationally. Depending on the sector, this is obviously a questionable assumption. For example, the finance sector in Liverpool or Leeds is assumed to have the same export propensity as that of London, and that all that differs is the relative importance (in employment share terms) of financial services in each city's economy. Thus, while the results

Table 2.3 Export base employment by broad sector, major Powerhouse Cities and London, 1971–2014

	1971–1991	1991–2014	1971–2014
<i>London</i>			
Manufacturing	–607,856	–188,818	–796,674
KIBS	208,492	738,584	947,076
Other sectors	11,031	130,831	141,862
Total	–388,333	680,597	292,264
<i>Leeds</i>			
Manufacturing	–60,085	–36,921	–97,006
KIBS	27,899	50,257	78,156
Other sectors	–759	5559	4800
Total	–32,945	18,895	–14,050
<i>Liverpool</i>			
Manufacturing	–117,211	–24,964	–142,175
KIBS	8808	21,495	30,303
Other sectors	–4772	5570	798
Total	–113,175	2101	–111,074
<i>Manchester</i>			
Manufacturing	–246,875	–107,640	–354,515
KIBS	56,783	121,909	178,692
Other sectors	–8765	11,469	2704
Total	–198,857	25,738	–173,119
<i>Newcastle</i>			
Manufacturing	–70,741	–36,438	–107,179
KIBS	15,496	20,477	35,973
Other sectors	–7341	2433	–4908
Total	–62,586	–13,528	–76,114
<i>Sheffield</i>			
Manufacturing	–73,510	–29,254	–102,764
KIBS	17,260	18,887	36,147
Other sectors	–997	3689	2692
Total	–57,247	–6678	–63,925

Source of data Authors' own data

are interesting, they must be taken in the context of the assumptions on which they are based. As far as actual regional trade is concerned, there are some limited estimates produced by HMRC.⁸ Unfortunately, these data only refer to manufactured goods: data for services are patchy and not

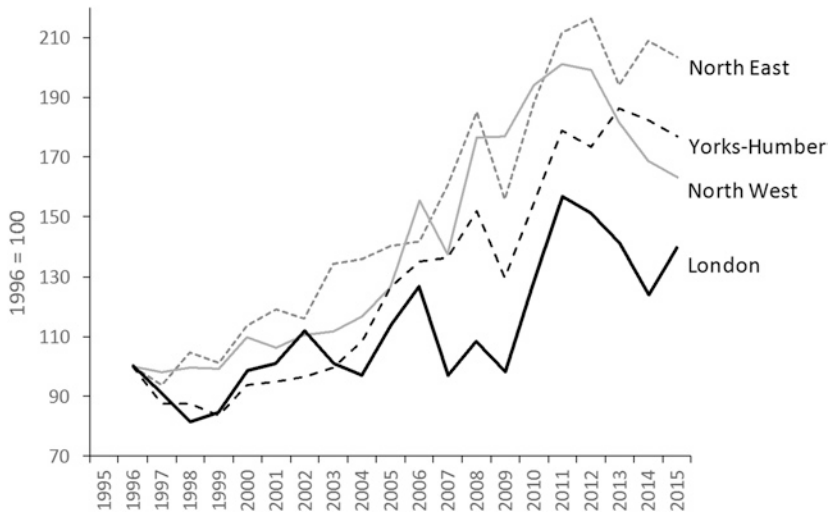


Fig. 2.7 International exports of manufactured goods from the Northern Powerhouse Regions and London, 1995–2015 (Nominal Prices, 1996 = 100). *Source of data* HMRC data on regional (NUTS1) goods exports and imports

reliable. Nevertheless, they provide some insight into certain aspects of the trading position of the Northern regions relative to the rest of the UK.

The results for the three ‘Northern Powerhouse’ regions as a whole show that the growth in tradable goods exports has outstripped that of the rest of the UK over the 1996–2015 period (Fig. 2.7), which on the surface would seem to give a different picture from that given by the relative growth trends of total output in the major Northern Powerhouse cities (Fig. 2.2). However, this picture relates only to goods exports and excludes trade in high-value services (including finance), in which London has a particular specialisation. Further, it is not just exports that are important. What also matters in the long run is each region’s or city’s trade balance (Rowthorn 2010). The degree to which a region or city imports goods from overseas contributes to the national trade balance, as well to its own long-run performance. It is well known that the UK as a whole has been running a trade deficit in manufactured goods for some time, and that it has worsened over recent years. The HMRC data contain estimates of the manufactured goods trade balance by region, and these show, perhaps not surprisingly, that in 2015 half of the nation’s trade deficit in goods was accounted for by London (Table 2.4).

Table 2.4 Balance of trade in manufactured goods, Northern Powerhouse Regions, London and UK, 1996–2015 (£m)

	1996	2000	2005	2010	2015
North East	2654	2234	2109	1549	761
North West	2945	2099	−313	4369	−790
Yorks–Humberside	1368	−1908	−966	−2488	−6366
Total NPH regions	6968	2425	831	3430	−6394
London	−14,900	−21,228	−16,959	−34,949	−49,816
UK	−2041	−31,034	−60,565	−97,556	−100,086

Source of data HMRC data on regional (NUTS1) goods exports and imports

Table 2.5 Exports per job in the Northern Core Cities and London, 2014

	<i>Total exports (£)</i>	<i>Goods exports (£)</i>	<i>Service exports (£)</i>
Leeds	8260	4470	3790
Liverpool	12,920	6950	5970
Manchester	11,470	5370	6100
Newcastle	8900	5680	3210
Sheffield	8640	5810	2820
London	23,470	5770	17,710
UK average	15,690	8240	7450

Source Centre for Cities (2017) and Centre for Cities Data Tool

Note Total city employment is used as the denominator for both goods and services exports, so that the sum of the two equals the value of total exports per job

However, while the Northern Powerhouse regions' balance of trade in manufactured goods was in surplus in the mid-1990s, this too has turned into a deficit over the past two decades, with only the North East region still showing a small excess of exports over imports. This of course means that the UK and its regions now depend crucially on exportable services to fill the trade gap.

According to TheCityUK (2017), London's financial sector, together with related professional services (legal services, accountancy and management consultancy), generated an estimated trade surplus of some £71 billion in 2014, which more than offset its goods trade deficit of £40 billion for that year. Unfortunately, there are no comparable data for the other UK regions, let alone other cities, so we do not know the contribution of tradable services to the trade balance of the Northern Powerhouse regions or cities. However, the Centre for Cities (2017) has recently estimated the value of exports by tradable services per job by

Table 2.6 Regional gross value added per capita, 1971–2014, indexed to UK = 100

<i>UK = 100</i>	<i>1971</i>	<i>1981</i>	<i>1991</i>	<i>2001</i>	<i>2007</i>	<i>2014</i>
London	153.3	163.7	163.0	165.6	169.3	174.3
South East	105.7	104.3	107.1	110.8	106.0	109.4
East of England	103.8	100.1	98.1	97.4	95.3	92.9
South West	90.9	94.1	92.0	92.3	90.6	89.3
East Midlands	80.7	85.0	84.7	82.9	83.4	82.3
West Midlands	96.4	89.8	90.0	87.4	84.4	83.4
Yorkshire–Humberside	80.7	85.5	84.7	81.4	85.8	80.2
North West	93.9	85.8	85.0	86.1	87.7	85.3
North East	75.3	79.2	75.8	72.0	75.5	73.5
Wales	78.5	78.2	75.3	71.5	73.7	72.0
Scotland	92.2	97.8	103.1	99.2	95.9	94.6
Northern Ireland	80.1	84.6	77.8	80.9	82.8	76.3
<i>CV</i>	<i>21.0</i>	<i>22.9</i>	<i>23.8</i>	<i>25.2</i>	<i>23.3</i>	<i>27.7</i>

Source of data ONS and Cambridge Econometrics

Notes Gross value added per capita in 2011 prices. Workplace (production-based) estimates. Converted to per capita values by dividing resident population not resident workforce. Government Office Regions. CV is the Coefficient of Variation, a measure of the regional ‘spread’ (disparity) in per capita relativities: the larger the value the more regionally uneven or unbalanced is the economy

city (Table 2.5), and this suggests—not unexpectedly—that the export value per job of London’s tradable services sector far outstrips that for the major Northern cities.⁹ These estimates also suggest that, with the exception of Manchester, despite the deindustrialisation the city has suffered over recent decades, the major Northern Powerhouse cities still export more manufactured goods than they do services. In this respect, their economies differ markedly from that of London.

A number of key points emerge from this brief analysis of the economic performance of the major Northern Powerhouse cities over the past four decades. In what has been a period of historic change and transformation of the UK economy—most notably the shift from an industrial to a service-based, globalised, and financialised ‘post-industrial’ mode of growth—the Northern Powerhouse cities have fallen increasingly behind London in terms of employment and output growth, and productivity. Deindustrialisation has seriously eroded their manufacturing export base, but unlike London, they have yet to rebuild that base around tradable, high-value service activities on a scale to compensate for the loss of manufacturing capacity. Another implication is that while London’s labour productivity has pulled well ahead of the national average since

the mid-1980s, that in the major Northern cities has remained below the national figure, with the result that the 'productivity gap' between London and the Northern cities has widened. Overall, the divide between the more prosperous London and the South East regions on the one hand, and the regions making up the 'Northern Powerhouse'—the North West, Yorkshire–Humberside and the North East—on the other, that, as we have seen, existed back in the nineteenth century, is as pronounced as ever (Table 2.6). Indeed, the lead of London is arguably greater now than it was more than a century ago (cf. Table 2.2).

WHY HAS SPATIAL ECONOMIC IMBALANCE BEEN SO PERSISTENT?

The fact that the pattern and scale of spatial economic disparity across the UK are not much different today than they were more a century ago raises some fundamental questions about the operation of the economy, as well as for policy. After all, according to conventional economic theory, large spatial disparities in economic performance and prosperity should not persist over long periods of time. Market forces—notably the free movement of labour and capital—should automatically operate in a self-correcting way to reduce such gaps. To be sure, there may be short-run frictions to such adjustments, but in the medium to long-term term we should see a convergence across regions and cities in per capita incomes, productivity and the like. The lack of any significant convergence can be given various interpretations.

The first, often advanced by advocates of conventional economic theory, is that there must be major impediments and barriers that are preventing market forces from operating freely. Such 'market failure', they go on to argue, is the only justifiable basis for policy intervention—especially on the 'supply side' of the economy. Yet the UK has had some form of regional and urban policy directed at promoting faster growth and levels of prosperity in economically lagging areas in the country for almost 90 years, since the late 1920s. The second line of argument is thus that these policies have failed. Some are of the view, for example, that the resources devoted to regional and other spatial policy measures have never been adequate to the scale of the task. Others levy the charge that regional policy has never been sufficiently strategic or developmental in its goals. A further interpretation, again one that tends to be preferred by the followers of conventional economic theory, is that the lack of any substantial and lasting positive impact confirms that regional and urban policy can never achieve much since it is trying to work 'against the

forces of the market', which in the UK 'naturally' favour the concentration of growth in the already prosperous London and the South East (for an extreme version of this argument, see Leunig and Swaffield 2007). In general, these spatial economists are of the view that there is no case for spatially targeted or selective policies, only general (nationwide) policies aimed at improving the movement of skilled labour (and capital) to where the markets opportunities and rewards are greatest, in combination with the deregulation of land and housing markets (by dismantling planning systems) in and around particular cities—especially London—so that further growth can be more easily accommodated there. This line of reasoning reached its most extreme in the Policy Exchange argument that:

There is no realistic prospect that our [Northern] regeneration towns and cities can converge with London and the South East. There is, however, a very real prospect of encouraging significant numbers of people to move from those towns to London and the South East. ... The implications of economic geography for the South and particularly the South East are clear. Britain will be unambiguously richer if we allow more people to live in London and its hinterland. (Leunig and Swaffield 2007)

A third and quite different conceptual account of the persistent nature of spatial economic imbalance is that market forces, even if allowed free rein, do not tend of themselves to reduce or eliminate spatial imbalance in economic growth and prosperity, but rather tend to perpetuate or even intensify such imbalance. The main process at work in this case is that of the increasing returns associated with spatial agglomeration of economic activity. Spatial agglomeration is seen as conferring various external economies on firms, including 'home market size' effects, the attraction of skilled workers, increased knowledge flows and interactions between firms, backward and forward linkages between firms, and so on, all of which are held to increase productivity, innovation and higher wages. Correspondingly, spatial economic imbalance is not necessarily seen as problematic or inefficient, witness the HM Treasury statement that:

Theory and evidence suggests that allowing regional concentration of economic activity will increase national growth. As long as economies of scale, knowledge spillovers and a local pool of skilled labour result in

productivity gains that outweigh congestion costs, the economy will benefit from agglomeration... policies that aim to spread growth amongst regions are running counter to the natural growth process and are difficult to justify on efficiency grounds. (HM Treasury 2007)

And the same view seemed to lurk in the Government Paper on *Understanding Local Growth*:

This new understanding [the New Economic Geography] of how economics works across space also alters the expected equilibrium. As both people and firms move to areas of high productivity there will be no simple convergence of productivity levels. Even with fully functioning markets, there can be an uneven distribution of economic performance, and persistent differences that are not necessarily due to market failure. (Department of Business, innovation and Skills 2010, p. 23)

The theory being referred to here—Krugman-style New Economic Geography—has on various occasions been used to promote the idea of an ‘equity-efficiency trade-off’, as in the quote above, whereby the pursuit of a more spatially balanced economy is believed to be at the cost of national economic efficiency (Martin 2008, 2015). The empirical evidence for such a ‘trade-off’, however, is far from equivocal. While some studies claim to find a negative relationship between national growth and the degree of spatial agglomeration or regional inequality (Dall’erba and Hewings 2003; Martin 2005; Crozet and Koenig 2007), others do not (Sbergami 2002; Bosker 2007; Martin 2008). To add to this ambiguity, Krugman himself (2009) has recently voiced some doubt as to whether increasing returns to spatial agglomeration as important as they once were

There’s good reason to believe that the world economy has, over time, actually become less characterised by the kinds of increasing returns effects emphasized by new trade theory and new economic geography. In the case of geography, in fact, the peak of increasing returns occurred long before the theorists arrived on the scene. (2009, p. 569)

So even one of its former leading exponents seems less convinced that spatial agglomeration necessarily promotes faster growth. Nevertheless, the spatial agglomeration argument has proved a powerful discourse. It underpins the contention that one of the reasons that Britain’s

Northern cities—especially the major cities making up the ‘Northern Powerhouse’—have lagged in economic performance is that they are too small, with the consequence that they do not benefit from the agglomeration economies found in large cities such as London. Thus, according to Overman and Rice (2008), while medium-sized cities in England are, roughly speaking, about the size that Zipf’s law would predict given the size of London, the largest city, the major second-tier cities (which include ‘core’ cities such as Manchester, Birmingham, Sheffield and Newcastle) all lie below the ‘Zipf line’ and hence are smaller than would be predicted.¹⁰ They go on to state that ‘this feature is not a consequence of London being too “large”’, but rather that ‘second tier cities may be too small’ (op cit, p.30). Such an argument would suggest that increasing the size of the core cities, and especially those of the ‘Northern Powerhouse’, would boost the advantages of agglomeration and hence their economic performance. However, as other authors have cautioned, Zipf’s law should not be expected to hold in countries that have a capital that is also the political centre, as is the case with London. As Krugman (1996) himself emphasises in his discussion of Zipf’s law, such political centres ‘are different creatures from the rest of the urban system’. A similar point is made by Gabaix (1999) who argues that ‘[i]n most countries Zipf plots usually present an outlier, the capital, which has a bigger size than Zipf’s law would warrant. There is nothing surprising there because *the capital is indeed a peculiar object, driven by unique political forces*’ (op cit, p.756, emphasis added).¹¹

The argument that Northern cities are ‘undersized’ is thus open to debate; improving their performance is a much more complex issue than simply increasing their size. The fact is that some of the fastest rates of productivity *growth* across Britain’s urban system over the past four decades have been recorded among smaller and medium-sized cities, especially those in Southern England (Martin et al. 2016): there is no simple relationship between city size and growth, and the lack of any such relationship appears to be a common feature across most OECD countries (Dijkstra and McCann 2013). A different way of looking at the issue might be to argue that the benefits of agglomeration can be realised not by making Northern cities substantially bigger but by vastly improving the connectivity between them so as to enable them to function as an efficiently interconnected and integrated multi-centric ‘super-city regional system’, in which the whole could indeed be ‘greater than

the sum of its parts' (City Growth Commission 2014). Investing in the infrastructures required to achieve that would arguably yield a greater economic dividend for the Northern cities than the High Speed 2 rail connection between London, Birmingham and Manchester, the case for which has never been convincingly proven.

The key question remains: why has spatial economic imbalance in the UK been so persistent? Another way of posing this question is to ask why is it that the London–South East corner of the country has been able to successfully 'reinvent' its economy and its export base twice over the last century—in the 1920s and 1930s, and again since the 1990s—while Northern regions and cities have found it much more difficult to do so? Why is it that the legacies of an industrial past, and what Linkon (2013, 2014) calls the 'half-life of deindustrialization' (see also Strangleman 2016), lingered longer and have been more inhibiting to economic reorientation and diversification in the Northern cities and regions than in London? Part of the answer obviously lies in the different capabilities, specialisms and structures as between the Northern regions and cities on the one hand and London on the other. London suffered deindustrialisation over the 1970 and 1980s no less than many Northern cities. But it also had other key sectors of activities—especially finance, banking and the raft of related services that both support and depend on finance—which had long been established there around which a new phase of growth could be organised. Northern cities did not have the same potential growth sectors 'waiting in the wings'. So, part of the different experiences of London compared to Northern cities undoubtedly resided in the inherited scope for economic diversification.

But without question, part also lies in the fact that London has long been the power centre of national economic, financial and political life. As such it has long exerted a dominating influence over the orientation, operation and priorities of those institutions that shape the national economy. While most of the policies followed by those institutions are ostensibly 'non-spatial' and supposedly geographically (and socially) 'neutral', invariably they have profoundly uneven effects, spatially and socially. As Lord Heseltine argued in the mid-1980s, all too often those policies have effectively functioned as 'counter-regional' policies, operating in favour of and serving to protect or reinforce the interests and priorities of London (and even more specifically the financial City) over the conditions and interests of the rest of the country.¹²

CONCLUSION: WHAT IS TO BE DONE?

Although it is certainly the case that in today's globalised economy the notion of 'combined and uneven geographical development' needs to be reworked to reflect the fact that many of our cities and regions are linked as much if not more to global markets, production networks and value chains than they are to one another (see, for example, Baldwin 2016), how they compete and function in those global arenas nevertheless remains strongly influenced by and dependent on national economic policies and interventions. And in the UK, those policies and interventions are shaped by London-centric institutions and priorities. In recent decades, successive Governments have been concerned—one might say obsessed—to enhance and protect the role and competitiveness of London as a global city and global financial centre. Indeed, for many, finance is seen as *the* central role that the UK can and should play in the new global economy, as the primary or perhaps only activity in which it commands a comparative advantage. Hence the attention is given to London. There is little discussion about what other actual or potential competitive strengths the UK has that can also be promoted to help the nation compete in the global economy. Thus, while the banks could not be allowed to fail in the crisis, the threat to the UK steel-making sector by the dumping of cheap Chinese steel, or the loss of domestic manufacturing and technology firms through takeover by foreign competitors, receives no such defensive support. Yet maintaining London's success, and its attractiveness to financial institutions, skilled workers and foreign investment, has become ever more costly: ever more major infrastructural investment is needed just to protect, let alone enhance, London's competitiveness. Though often held up as a beacon of prosperity driven by 'market forces', London's economy is hugely underwritten by the state (Oxford Economics 2007). The attention and support accorded by central government to our major Northern cities, to help them to establish competitive roles in today's global economy, has been marginal by comparison.

But with the Government's new-found concern over spatial economic imbalance, and its new spatial imaginary of the 'Northern Powerhouse' and the 'Midlands Engine', are we now at a policy crossroads? Is the new political credo of 'spatially rebalancing the economy' being translated into policy actions capable of achieving that goal? Over recent years the departments of Government responsible for economic policy—Business,

Energy and Industrial Strategy, Communities and Local Government, and even the Treasury—have all ‘discovered geography’ and the ‘importance of place’. Several new policy initiatives have been introduced and announced with the aim of setting the national economy on a higher productivity growth path, and spatially rebalancing the economy as part of that objective, including new Local Enterprise Partnerships, a Local Growth Agenda, City Deals, a National Infrastructure Commission, a Productivity Commission, a Patient Capital Review, an Industrial Strategy Green Paper, changes to local business rates, and the beginnings of devolution of (limited) fiscal and policy powers to cities and city-regions (conditional on the establishment of ‘metro-mayors’). While these and others measures are to be welcomed, it remains unclear whether together they add up to a strategy that is sufficiently radical, bold and coherent to secure the desired outcome, especially as the Government continues at the same time to pursue its programme of fiscal austerity, including cuts in central grants to local government.

Some thirty years ago, Michael Heseltine, a long-time ‘one-nation’ Conservative, bemoaned the over-centralization of the national political economy in London:

In a sense we are becoming a rather monopolistic political society. I don’t say that in the narrow party sense. I say it in terms of the domination of Britain by the City of London, in terms of ownership and wealth. I say it in terms of the lack of obvious roots of power outside the major political parties and the increasing location of the major corporate headquarters in London, the drift South of the public sector.... (Michael Heseltine, cited in Lloyd 1988: 17)

Even further back, in the 1960s, that journalistic bastion of free market economic thinking, *The Economist*, was moved to argue that what the North of Britain needed was its own ‘London’. It has more recently reiterated that view:

So much of what is wrong with Britain today stems from the fact that it is unusually centralised. Draw a circle with a 60-mile radius centred on Charing Cross. Within that circle, the vast majority of public spending is administered. Also: all major decisions pertaining to foreign policy, defence, the economy, the national debt, interest rates... That circle contains all the major banks, most of the major theatres, the media and arts worlds, the five best universities (according to the Times Higher

Education rankings for 2017), the hubs of all the country's major industries, 70 per cent of the FTSE 100, most of Britain's airport capacity. The divide between Britain inside the circle and Britain outside it concentrates too much power within too few city districts ... So, while moving Britain's capital would not solve every problem, it would go a long way to addressing the complaints that lead to today's divided country. It would contribute hugely to the rebalancing of the economy. It would help drive the urban integration needed to raise productivity and thus living standards outside the charmed South-East. (*The Economist* 2017)

Stimulated in part by Heseltine's (2012) provocative call for a devolution of fiscal and other powers, the UK has begun the first tentative steps in this direction. But just how far down this path the London-based political establishment and financial elites will be willing to go remains to be seen (indeed, the Coalition Government's initial enthusiasm for devolution seems to have lost some momentum under Theresa May's Conservative administration). At the same time, the 'combined authority' model of devolution that has been championed does not readily mesh with the complex two-tier layering of local political power and responsibilities that exist across the country: many local authorities are themselves not yet convinced that the proposed model of devolution will bring much material benefit. Nevertheless, the fact is that other OECD countries have devolved or federalized systems of political-economic governance that seem to work more effectively and productively than the UK's over-centralised model, and most enjoy much greater regional economic balance. A century and a half of spatially unbalanced prosperity and growth in the UK is surely sufficient cause to warrant a fundamental reform of the nation's political economy. At present the changes underway are ad hoc, rather than based on a detailed analysis of what the most beneficial and effective political and geographical configuration across the whole nation would look like. What is clear, however, is that the growing popular disaffection now evident across the cities and regions with the remoteness and self-serving nature of the London establishment is a long-overdue wake-up call that fundamental reform is needed.

NOTES

1. This research for this paper was undertaken as part of a project funded by the ESRC (ES/N006135/1) into 'Structural Transformation, Adaptability and City Economic Evolutions', as part of its Structural

Transformations Programme. We are grateful to the ESRC for its support.

2. The acronym NICE is usually attributed to the former Governor of the Bank of England, Mervyn King.
3. For example, in commenting on the 'North-South Divide' debate that arose in the mid-1980s, Lord Young the then Secretary of State for Trade and Industry under the Thatcher Government ventured to claim that 'Until 70 years ago the North was always the richest part of the country...that is where all the great country houses are because that's where the wealth was. Now some of it is in the South. It's our turn, that's all' (Quoted in *Business* 1987, p. 17). This was a highly simplistic and not altogether accurate reading of the country's historical economic geography, and a dismissive interpretation of the widening gap between the prosperous South and lagging North in the 1980s as some sort of 'natural justice of history'.
4. Details of this ESRC-funded research programme, entitled *Structural Transformation, Adaptability and City Economic Evolutions* (Grant ES/N006135/1), can be found at <http://www.cityevolutions.org.uk>.
5. Technically, this is measured as $Cumy_{iT} = \sum_{t=1}^T (y_{it} - y_{Nt})$, where y_{it} is the per cent change in, say, employment or output in year t , and y_{Nt} is the corresponding per cent change in Great Britain as a whole, and $Cumy_{iT}$ is the cumulative sum of the growth differential for city i from time t up to time T . This simple technique was used to interesting effect by Blanchard and Katz (1992) to chart the disparate economic evolution of US states in the post-war period.
6. Estimating total factor productivity (TFP) by city is not possible because we do not have data on capital stock or investment over time at this spatial scale.
7. Southern are cities defined as those in the following regions: London, South East, East of England, South West and East Midlands. Northern cities are defined as those in the West Midlands, Yorkshire-Humberside, North East, North East, Scotland and Wales. Great Britain averages shown by intersecting pecked lines.
8. It should also be borne in mind that the HMRC trade figures are in current prices, and thus reflect both movements in the volume of trade as well as their prices.
9. The definition of cities used by the Centre for Cities is the Primary Urban Area, essentially the contiguous Local Authority Districts which contain the built-up area of a city. These differ from the Travel-to-Work Area definitions used in our analyses. The Centre for Cities estimates the value of exports per service job by apportioning national service export data to cities on the assumption that each city's service sector has the same export orientation as it does nationally. The estimates should thus be

- interpreted with the same caveat that applies to our estimates of city export intensity used above.
10. Zipf's law refers to the relationship between city size and city rank. If cities are ranked by population size and the slope of a plot of the log of city rank (by size) against the log of size is -1 , this is referred to as Zipf's law.
 11. In an important study of city size distributions in 75 countries, Soo (2005) found that departures of the rank versus size relationship from a slope of -1 are explained by political factors rather than by economic geography factors like economies of scale or agglomeration economies.
 12. This argument was set out in a speech that Michael Heseltine gave to the Brick Development Association in London in the mid-1980s. He was Secretary of State for Trade and Industry at the time.

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Developing England's North

The Political Economy of the Northern Powerhouse

Berry, C.; Giovannini, A. (Eds.)

2018, XIII, 326 p. 13 illus., Hardcover

ISBN: 978-3-319-62559-1