Equitable Economic Growth, a Paradox? UK's North-South Divide

Executive Summary

We explain the reasons for why regional economic growth diverged for the North and the South since the late 1970s. Using Gardiner et al (2013)'s results, we consider whether less productive individual firms or less productive industries are behind the North's slower growth today. From economic literature, we discuss how agglomeration and network effects create a self-reinforcing loop that increases the divergence, and its potential implications for future policy.

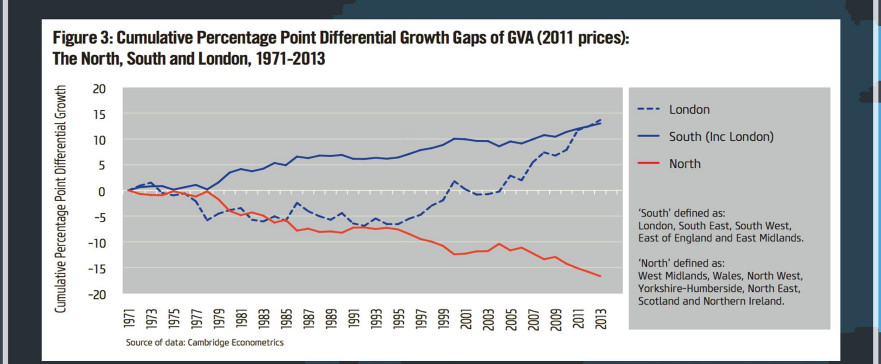
Origins of Research

The LSE Growth Commission invited the LSE Student Union's Economic Society to contribute online articles as part of its deliberations for inclusive and sustainable economic growth in the UK. We are grateful to be invited by the LSESU's Economics Society to contribute a review article on understanding the North-South Divide in the UK.

British Economic History

The issue of the 'North-South Divide'* became increasingly prominent in the late 1970s and 1980s. The North, traditionally more reliant on manufacturing, grew more slowly for several reasons. Deindustrialization became more pronounced; the British manufacturing sector faced increasing competition from low cost producers in Asia.

Differential Growth Gaps Between North and South



The decline of the manufacturing sector in the South and London was made up by the growing service sector, facilitated by the 'Big Bang' policies of the 1980s that encouraged the expansion of financial and professional services. The North did not experience a similar boom in services; the divergence in growth emerged as the South and London led in the service sector. Today, the manufacturing sector still plays a larger role in the North than in the South and London.

*we use Gardiner et al (2013)'s definition of the North and the South

Jarrow Crusade 1936

Methodology

(1) Literature Review
>Economic literature on regional economic growth, deindustrialization and economic geography
>Reports on industrial policy commissioned by the government, government policy papers

(2) Used Gardiner et. al (2013)'s results from multi-factor partitioning methods as a framework to organize major explanations from the literature for different regional growth rates

(3) Explain mechanisms behind the North-South Divide and its potential policy implications

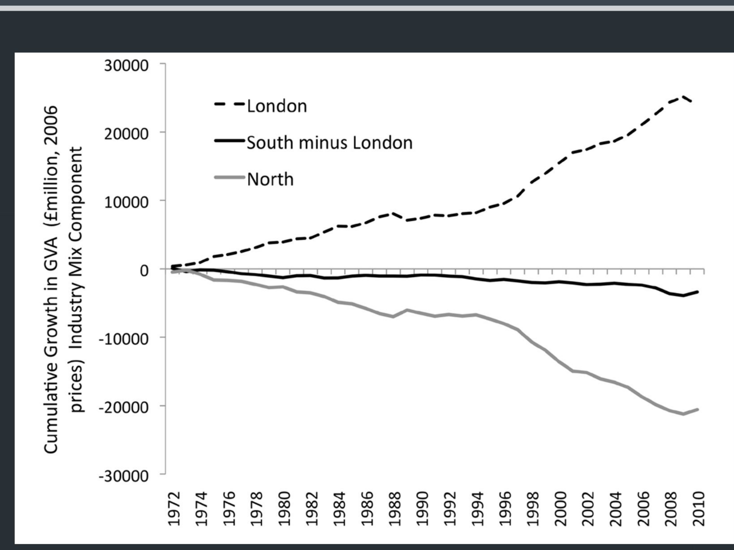
Dividing Regional Growth

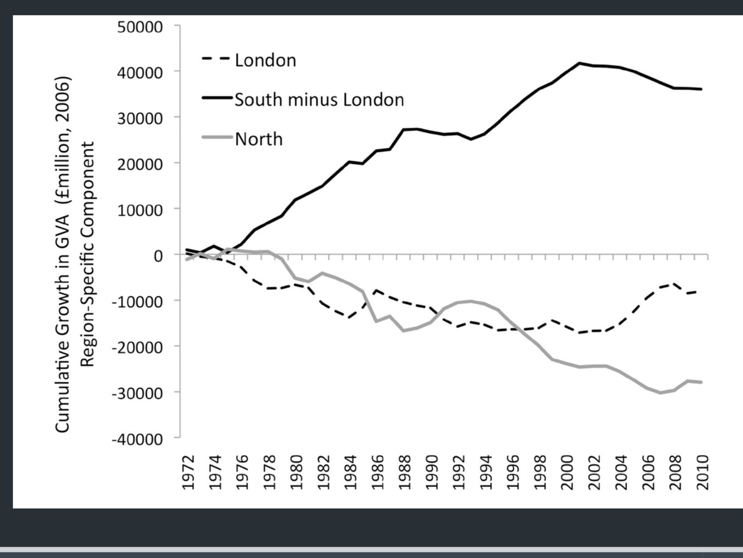
Gardiner et. al (2013) divides regional growth into the industry mix component and the region specific component.

Industry mix: More productive industries located in the region

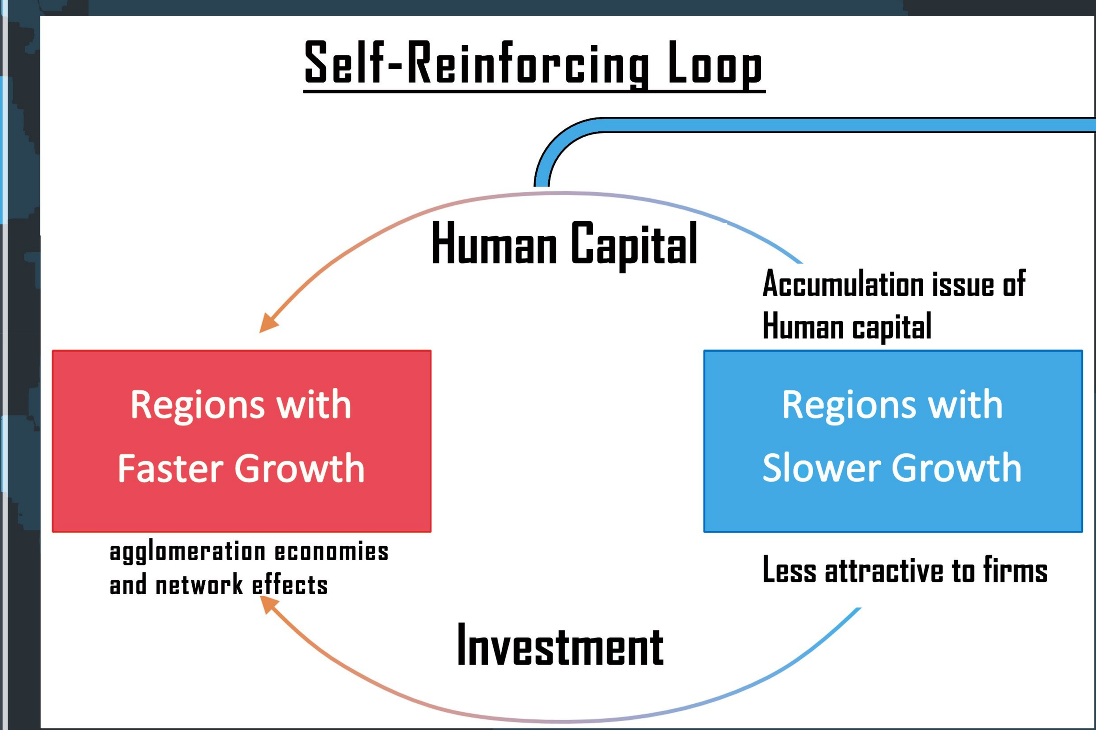
Region specific: Individual firms are more productive than their counterparts in the same industry elsewhere:

- The South grew because individual firms were more productive
- London grew because there were more productive industries
- The North:
  - (i) Less productive industries located here because:
    - Relative heavier reliance on manufacturing and a smaller service sector; deindustrialization has affected the North more adversely
    - Past regional policy
    - Agglomeration and network effects
  - (ii) Intra-industry firms less productive than counterparts elsewhere
    - Agglomeration and network effects



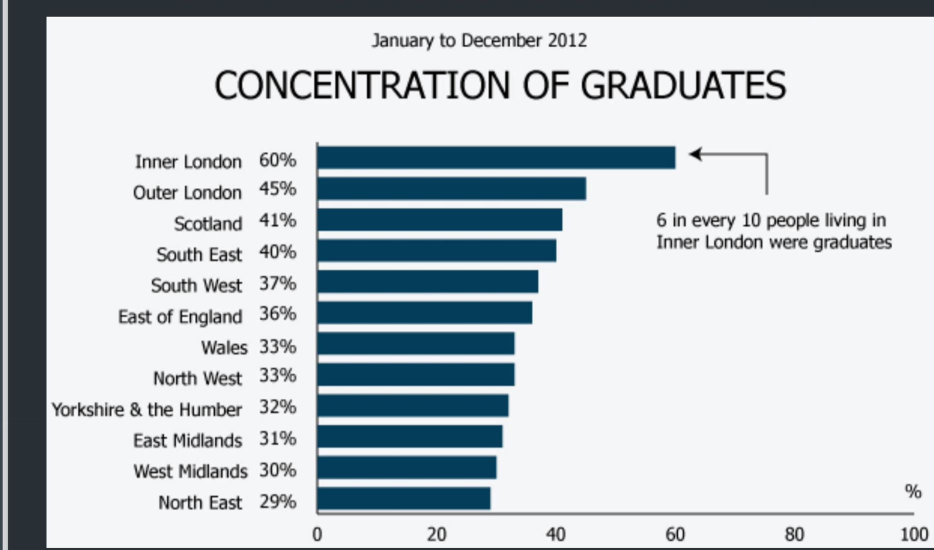


Mechanisms at Work



The divergence in regional growth between the North and the South can increase through agglomeration economies and network effects. Firms clustering together attract more suppliers and customers, making them more profitable. This creates a self-reinforcing loop through human capital and investment flows.

Graduates Across Great Britain



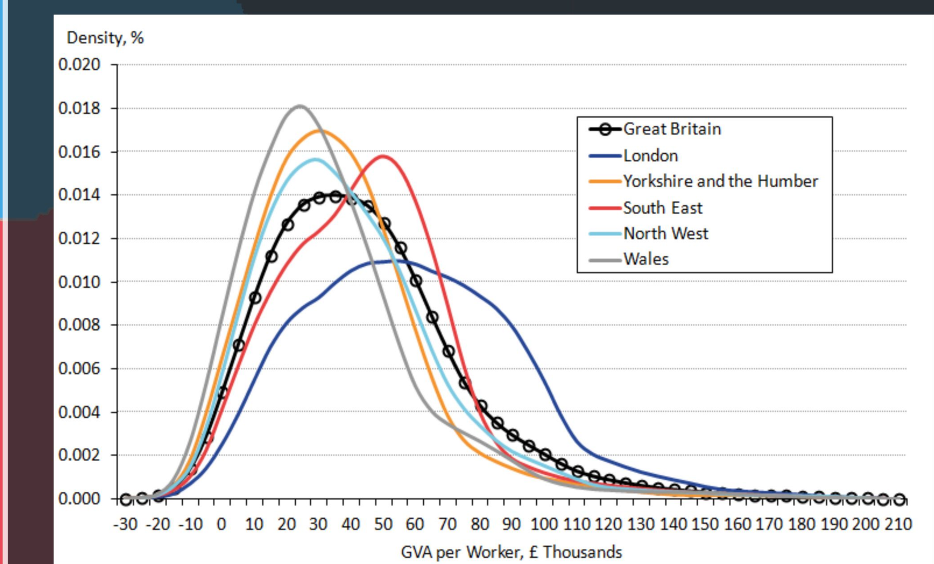
Human Capital

(1) Better opportunities in the South attracts high-skilled labour from the North

(2) Pool of skilled labour in the South attracts further investment, creating more opportunities; even more labour flows South

(3) Negative implications for future human capital accumulation in the North

GVA Per Worker Across Great Britain



Investment

(1) Existing industries or firms are more productive in the South and London, creating agglomeration economies and network effects

(2) Attracts further investment by productive firms; higher concentration of productive firms in the South

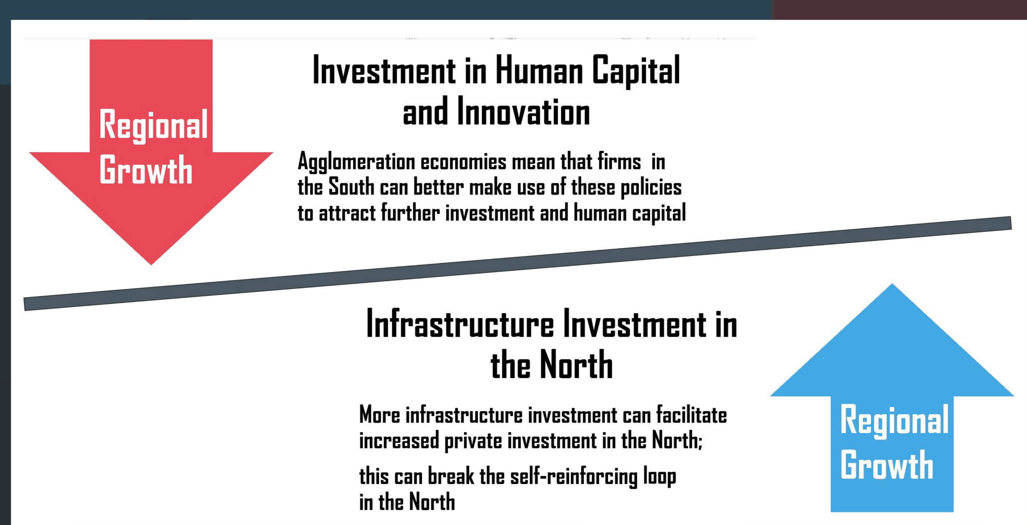
(3) Further investment attracts further human capital flows, reinforcing the outflow of human capital from the North and creating further agglomeration economies in the South

Insights

- The self-reinforcing loop means human capital and new investment is continuously attracted to the South; this attracts more productive industries and more productive firms, creating further divergence in regional economic growth
- Agglomeration economies and network effects mean it's hard to attract more productive industries, or for existing firms in the North to increase their productivity by attracting human capital and investment

Policy Implications

- Current government policy has ambiguous effects on whether the divergence in regional growth will continue to increase; it does not directly address breaking the self-reinforcing loop



- Addressing the increasing divergence in regional growth may not be growth-maximizing in the short run, but the creation of agglomeration economies and network effects in the North can boost growth in the long run

Reference

Ben Gardiner, Ron Martin, Peter Sunley, Peter Tyler; Spatially unbalanced growth in the British economy. Journal of Economic Geography 2013; 13 (6): 889-928

Office of National Statistics, (2017), Distribution of firm level productivity. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/regionalfirmlevelproductivityanalysisforthenonfinancialbusinesseconomy/jan2017 [Accessed 6 March 2017]

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