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Regional disparities in the United Kingdom

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John Bachtler

Regional Disparities in the United Kingdom

Contents

1. Introduction
 2. Historical Context
 3. Trends in Regional Disparities
 - 3.1 Regional Problems pre-1945
 - 3.2 The Long Boom: 1945-1973
 - 3.3 Deindustrialisation and Tertiarisation: 1973-1980s
 4. Recent Trends: 1980s to 2000
 - 4.1 Employment
 - 4.2 Unemployment
 - 4.3 Economic Trends
 5. Conclusion
- References

1. Introduction

In an EU context, the United Kingdom has the most extreme economic disparities of any current or new Member State. According to the Second Cohesion Report (CEC 2001) and more recent Eurostat data, the UK has the most prosperous NUTS II region in the EU, with a GDP per capita approaching three times the level of the EU-26 average. At the other end of the scale, the UK has one of the poorest EU regions – Cornwall & the Isles of Scilly – which, even in an enlarged EU, would have Objective 1 status by virtue of its GDP per head being less than 75% of the EU-26 average. As an indicator of regional problems in an EU context, the UK receives almost five percent of Objective 1 funding and is one of the largest recipients of Objective 2 and 3 support in the EU.

Within the UK, regional disparities have several key features. First, there are long-standing, deep-seated inequalities in prosperity and employment between regions, characterised by the dominance of south-east England (centred on London) over the rest of the UK. More generally, there are differences between southern regions (South East, South West, East Anglia, parts of the Midlands) and most other parts of the country – frequently termed a ‘north-south divide’. Second, industrial restructuring over the past 30 years has led to more complex intra-regional patterns of disparity, with greater localised differences in wealth and employment. It has been claimed that differences within regions are as great as differences between regions. Third, since the 1980s, the ‘regional problem’ has been partly eclipsed by the growing attention given to the problems of the inner city areas of the major conurbations – London, Liverpool, Manchester, Glasgow, Newcastle, Leeds. Of greatest concern are areas characterised by so-called ‘social exclusion’ – low rates of economic activity, generational unemployment, low levels of skills and qualifications, poverty, fragmented families, and high rates of crime, delinquency, alcoholism and drug dependency. Lastly, in recent

years, the policy debate has focused on differences in the relative economic competitiveness of the regions and localities in the UK.

This chapter reviews regional disparities in the UK, a country illustrative in many aspects of regional dynamics in other parts of the EU. The chapter begins by reviewing the historical context and long-term trends in regional disparities, before examining current spatial patterns and contemporary policy debates on the regional problem.

2. Historical Context

Economic historians and geographers have recognised a ‘dualism’ in the economic development of the UK – a divide between the northern and southern parts of the country - dating back over several centuries. The Industrial Revolution of the late 18th and 19th centuries began in the Midlands and North West of England. It was based initially on textiles and then other sectors such as coal-mining, iron and steel, heavy engineering and shipbuilding, with manufacturing coming to dominate the employment structure across much of Northern England, Western Scotland and South Wales. The south of England (with the exception of London) tended to be more reliant on agriculture, subject to cyclical fluctuations in prices, and was generally less affluent.

The industrial prosperity of the ‘north’ began to change markedly in the 1920s and 1930s. This was the start of a long-term decline in the fortunes of major manufacturing sectors, and a shift in location patterns to favour the Midlands and southern regions of the country among growing light industries and service sector firms. It was also during the 1930s that regional policy measures first began to be introduced with the ‘Special Areas Act’ providing assistance for the high-unemployment areas of South Wales, North East England and Western Scotland. In effect, there was a reversal of the relative prosperity of northern and southern regions of Britain which has persisted to the present day.

However, there are two caveats to this picture (Martin 1988).

1. The leading position of London has dominated the economic geography of the country for over 500 years. The pre-eminent role of London originated in its role as the seat of the monarchy and national government, geographical proximity to Continental Europe and, in particular from the 17th century, its importance as a financial, trading and distribution centre. London was a pivotal location in the growth of Britain’s international trade, with an increasing concentration of service employment, especially associated with banking and financial services. Even over the 1840-1920 period, when ‘northern’ prosperity was at its greatest, South East England was performing much better in terms of manufacturing employment growth (as well as growth in service sector jobs).
2. There were some important differences in employment trends among northern regions of the UK. It is possible to distinguish between the so-called ‘manufacturing heartland’ of the West Midlands, North West England and Yorkshire-Humberside, and a so-called ‘industrial periphery’ of Wales, Scotland and the North/North East England. Although there were significant increases in manufacturing employment in all regions (spectacularly so in the big cities), employment growth in the ‘industrial periphery’ was about half that of the ‘industrial heartland’, and indeed the periphery actually experienced a relative decline in its share of manufacturing employment dating back to the 1840s.

A further historical factor of note is the degree of urbanisation of Britain. This originated in a combination of ‘push’ factors associated with agriculture (technology, prices), notably changes in landownership from the 17th to 19th centuries which led to the enclosure of land and the effective disappearance of a small-scale, land-owning class of farmers. The large population of landless labourers were therefore easily attracted by the huge demand for industrial work in the big cities. By the early 20th century, England and Scotland were the two most urbanised countries in the world, and agriculture accounted for a relatively small share of employment by comparison with other European countries. Historically, regional policy in the UK has been primarily associated with urban/industrial areas; with some exceptions, rural areas have featured much less prominently as a target of regional policy than in France or Germany, for example.

3. Trends in Regional Disparities

A striking feature of UK regional problems is their persistence. In the 1960s, McCrone (1968) noted that regional policy had been in operation for over 30 years, yet the problem regions were approximately the same ones as in 1934. More than two decades later, it could be argued that the United Kingdom was almost the only developed country where historical regional unemployment rates would serve as good predictors of contemporary regional disparities (Bachtler 1994).

3.1 Regional Problems pre-1945

The analysis of UK regional problems frequently takes the 1930s as a starting point. The early part of the decade was a period of severe economic and social problems for the United Kingdom, notable for the high level of unemployment throughout the country. Unemployment levels exceeded one million during the 1920s and reached three million in the 1930s; unemployment rates ranged from around 10 percent in the 1920s to 23 percent in January 1933. The depression originated from the UK’s export dependence on traditional industries (textiles, iron and steel, ships and coal) during much of the 19th century and the early 20th century. Several factors contributed to the recession in these industries – overvaluation of the pound, technological change, protectionism among developed countries and competition from developing, lower wage economies.

It was during this period that the need for government intervention in response to the difficulties of particular parts of the country was recognised much more explicitly than was previously the case. Three types of regional problem were identified: depressed industrial areas; under-developed, rural areas; and congestion in densely populated areas.

The first and clearest category of problem regions comprised the depressed industrial areas where the effects of the depression were most severe. In general, the northern parts of the country were most affected. While unemployment rates in London and the South East were 5-6 percent in the 1920s, rising to 15 percent in 1932-3, Scotland, Wales, Northern England and Northern Ireland had rates of 12-15 percent in the 1920s, increasing to 25-35 percent in 1932. The rise in unemployment reached its height in the regions dominated by the ‘staple industries’ – coal, ship-building, iron and steel and textiles - such as the coastal areas of North East England, West Cumbria, Central Scotland, South Wales and Northern Ireland as well as parts of Merseyside and Lancashire. In these areas, unemployment averaged 40 percent of the employed labour force in 1933 and, in individual towns, ranged from 50 to 90 percent (McCrone 1968).

In some respects, the depression represented an intensification and widening of long-standing problems. Although they were the source of national prosperity, the 'staple industries' were associated with unstable regional economies subject to periodic, prolonged and widespread unemployment during the 19th century. Subsequently, the collapse of these industries resulted in acute economic distress and unemployment.

The problems of the depressed industrial areas during the inter-war period were compounded by geographical and structural disadvantages. Most areas were peripheral relative to the centres of economic growth (in southern England) and the shift in trading patterns away from the Atlantic to Europe. Further, the industrial areas were disadvantaged by their economic structure. The growth of manufacturing employment in new engineering and consumer goods industries favoured locations in the south and east of the United Kingdom, the area which also predominated in service activities such as commerce, banking, finance and government (Martin 1989).

The second type of problem region comprised areas of rural depopulation and underdevelopment, in particular the Highlands and border areas of Scotland, Mid-Wales, South West England and parts of Northern Ireland (and, prior to 1922, the whole of Ireland). This was a much more long-standing regional problem, already evident in the early and mid 19th century, but which was only accorded occasional special legislation.

Lastly, a regional problem that was evident before the Second World War, but which grew in importance after 1945, was social and economic congestion in densely populated areas, especially in the South East, where the London metropolitan region was the largest urban concentration in Western Europe. The congested South East and the Midlands were seen as excessive concentrations to the detriment of the depressed areas.

3.2 The Long Boom: 1945-1973

Following the Second World War, reconstruction and the promotion of exports encouraged a period of exceptional economic growth. By 1955, the British economy was, in employment terms, one of the most highly industrialised economies in the world. However, even during the post-war period, there were frequent balance of payments problems based on fundamental economic weaknesses of poor competitiveness, inadequate profitability and slower growth, together contributing to lower productivity increases in comparative international terms.

In spatial terms, the Second World War and the immediate post-war period were associated with a reduction in regional inequalities in economic activity. It is estimated that, over the period 1939-47, there was an 'accidental or planned' redistribution of industry involving a loss of 350,000 jobs from South East England and the Midlands to other parts of the United Kingdom, particularly to the North West, the North, Wales and Scotland.

The period following post-war reconstruction, from 1947 onwards, was extremely favourable, economically, for the most parts of the United Kingdom. The repeat of severe regional distress, characteristic of the inter-war years, was prevented by 'demand management' to maintain full employment, and nation-wide social welfare policies to reduce the effects of unemployment. The period 1951-73 has been referred to as the 'Long Boom', when inter-regional imbalance was less important and the UK unemployment rate remained at a very low level, rarely exceeding three percent. Indeed, with national unemployment (at times) as low as one percent, it was argued that the higher levels of unemployment in certain regions provided a significant labour reserve. This

was a factor of considerable importance to UK governments concerned with potential UK growth constraints resulting from insufficient labour supply.

Although minor by comparison with the pre-1939 period, regional disparities in unemployment and income continued. Even between 1945 and 1947, London and the South West had begun to regain some of the industrial employment lost during the War. During the 1950s and early 1960s, much of the economic growth in manufacturing was concentrated in the central and southern parts of the United Kingdom, notably the industrial conurbations of London and Birmingham and the surrounding regions (South East and Midlands). By contrast, many other regions declined in relative terms, particularly Scotland, the North West, Yorkshire, Northern Ireland, Wales and parts of the South West, although only ten of the country's 62 sub-regions recorded absolute decline during this period. In relative terms, the differential rate of growth represented a clear shift southward, and by the mid-1960s, the south and west of Britain had emerged as the country's major concentration of manufacturing (Martin 1989).

The year 1966 is generally seen as a 'watershed' for UK industrial employment (manufacturing, mining and construction) at which time employment in industry was at a record level of 11.5 million people, of which manufacturing accounted for 8.97 million employees. Over the preceding 1959-66 period, manufacturing employment had increased by 400,000 jobs, whereas subsequently manufacturing employment declined by 580,000 jobs between 1966 and 1971 and by a further three million up to 1984. After 1966, the pattern of spatial employment change in manufacturing was characterised by the dispersion of employment and a reversal of pre-1966 trends. The five major industrial conurbations – London, the West Midlands, Manchester, West Yorkshire and Clydeside - lost some 540,000 manufacturing jobs during the second half of the 1960s; nearly all the declining sub-regions were clustered along the London-Lancashire industrial belt. Most peripheral sub-regions, however, experienced net manufacturing employment growth.

3.3 Deindustrialisation and Tertiarisation: 1973-1980s

During the 1970s and 1980s, the UK economy can be characterised by two major trends in employment. First, the period was marked by a decline in manufacturing jobs. Manufacturing employment fell from 7.6 million to 4.9 million between 1972 and 1991 (a fall of 35 percent), with most of the jobs being lost over the 1979-87 period.

Second, there was a major rise in service employment. Service industry employment rose by two million between 1971 and 1984, increasing the service share of total employment from 53 to 65 percent, particularly with respect to female and part-time jobs. Three groups of services were mainly responsible for this growth: services related to the growth of leisure and recreation; public services such as education, notably during the 1970s; and private producer services such as banking, finance and business services.

The importance of these changes in industrial structure is deemed highly significant: "What has been underway for the past decade and a half [1973-88] is not some mere inflexion or disturbance of the 'post-war norm', nor simply a major recessionary crisis, albeit a particularly prolonged one, but arguably a transition to a new phase of economic development" (Martin 1989). This structural shift to a new phase of economic development has been labeled as 'deindustrialisation', implying negative features such as job losses in manufacturing industry, lack of international competitiveness and deficits in the balance of trade. Others refer to 'post-industrial change' denoting a more positive

structural progression towards more efficient knowledge and technology based industries, greater productivity and predominance of professional and technical employment.

Third, technological change had a great impact on virtually every industry: “the wave of technological innovation, based primarily on micro-electronics and information processing, that began in the early 1970s and which is generating a number of new industries and transforming the operation of existing ones” (Martin, 1989). Technological ability, rather than productive capacity, became a key factor in determining business competitiveness, with significant implications for the nature of both manufacturing and service employment within industries.

These processes of deindustrialisation, tertiarisation and technological innovation together contributed to major changes in the economic, social and spatial organisation of the United Kingdom. Industrial decline affected not just individual industries but virtually the whole manufacturing sector in the older industrialised regions, especially in the North West and West Midlands. More than one-quarter of manufacturing jobs were lost nation-wide, a figure rising towards one-third in the North West, North Yorkshire-Humberside, Scotland and Wales. Job loss in the manufacturing sectors was far lower in some of the southern regions. Equally important, the regional distribution of new employment creation in the service sector was very uneven: nationally, service employment increased by an average of 6.4 percent, but with figures in excess of 10 percent in East Anglia, the South West and Scotland.

Lastly, a further spatial issue began to be recognised during the 1970s: the plight of the inner city areas of the major conurbations. Environmental dereliction, poor quality housing and infrastructure and social deprivation were combined with an eroding manufacturing base reflecting a prolonged period of out-migration of both people and businesses. Indeed, there was a widespread perception that the United Kingdom suffered from an ‘urban problem’ rather than a ‘regional problem’.

4. Recent Trends: 1980s to 2000

The decade of the 1990s was characterised, initially, by recovery from the fluctuating economic cycles of the 1980s and early 1990s, involving two major recessions and a period of very high growth in the mid/late 1980s, and then a period of prolonged, almost unbroken economic growth from 1993 with relatively stable economic conditions.

4.1 Employment

In 2002, the UK civilian labour force was 29 million, comprising around half of the UK population. The employment rate constituted 74.1 percent. In recent years, employment growth for the country as a whole has averaged about six percent per year.

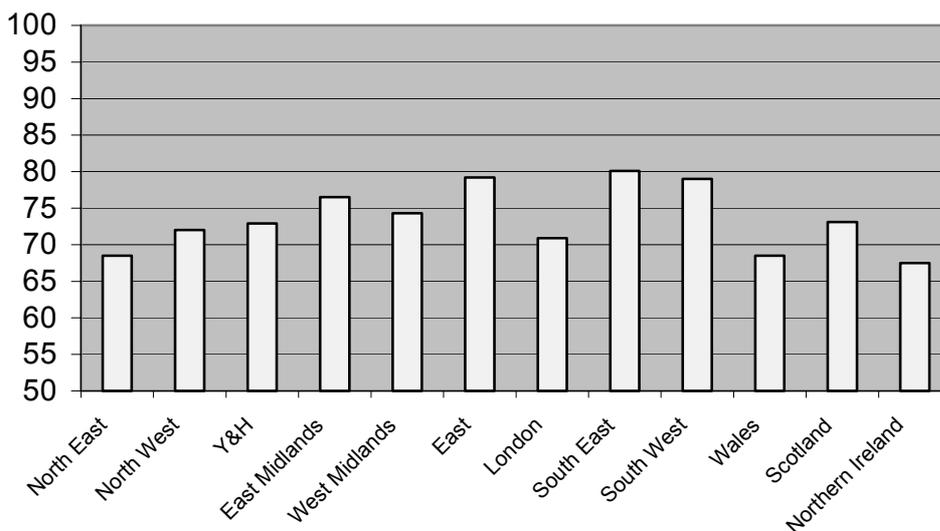
Among the UK regions, regional employment change has been highly differentiated. Employment growth has consistently been higher in southern regions (especially the South West and Eastern region) than in northern regions (such as the North East, the North West and the West Midlands). The principal exceptions to the trends were: the South East and East Midlands during the 1986-94 period, when employment growth temporarily slumped before resuming again from 1994 onwards; and Northern Ireland, where the labour force has generally grown faster than the UK average across the period. Similarly, employment rates have remained highest among southern regions (see Figure 1) – notably the South East (80 percent of the available workforce in 2002), the

South West and Eastern regions (79 percent) and East Midlands (77 percent) – while lowest in Wales (69 percent), North East England (69 percent) and Northern Ireland (68 percent).

The regional differences have largely been related to industrial structure. The southern regions have a much higher proportion of employment in the fast-growing business and financial services sectors, initially in the South East but spreading during the 1980s and 1990s to neighbouring regions such as the South West and Eastern region. In contrast, several northern regions have been marked by a continued, unrelenting decline in traditional industries over the last two decades, especially in coal and steel production as well as many other manufacturing sectors. There has, however, been some convergence of sectoral employment structure over the last decade, as the regions previously dependent on the declining, traditional industries have at least partially restructured.

All regions have experienced common trends in the changing sectoral structure of employment. A significant loss of manufacturing jobs was felt throughout the country during the 1980s and 1990s, although the impact was disproportionate in some areas. For example, the Midlands and northern regions had a greater dependence on manufacturing in the industrial structure – consequently, in areas such as the West Midlands, the loss has been particularly severe, with the result that the region no longer has the UK’s highest share of manufacturing in the regional labour force. This loss of manufacturing jobs in the northern regions was further compounded by the loss of public service employment, a process that initially began by central government cuts but was accelerated in the late 1980s and early 1990s following the reorganisation of local government and the pressure to cap local spending. Since 1999 there has been a reversal of the decline in public sector employment, as the increases in public expenditure in health and education have started to feed through into the labour market.

Figure 1: Regional employment rates in the UK, 2002 (%)



Source: Office for National Statistics, Regional Trends 37. Table 5.18. Based on Labour Force Survey.

At the same time, positive growth has taken place in private services in all regions, nearly doubling the share of regional labour force in some regions, such as the North East. Job creation in services has been more marked in southern than northern regions,

largely as a result of the diffusion of service sector employment from the South East. Nevertheless, the combined effect of declining secondary and expanding tertiary employment has been to make the employment structure within regions more similar than was the case two decades ago (see Table 1). The division into a manufacturing-based ‘north’ and a services-dependent ‘south’ is no longer applicable. Consequently, the East Midlands has a considerably higher share of manufacturing employment than Scotland and Northern Ireland, and the North East is equal to the South East in terms of the importance of private services as a source of regional employment.

Where regional differences are more visible is in terms of dependence on specific sectors. For example, many southern regions account for the majority of advanced manufacturing and producer service jobs – especially high-tech engineering, research and development and financial/business services employment – which is associated with concentrations of higher professional and managerial occupational classes. Other regions, such as Yorkshire & Humberside and Wales, appear to have very small shares of high-technology activity. Both high-tech and producer services are most strongly represented within local labour markets in and around London and westwards from the capital as far as Bristol – the so-called ‘M4 corridor’. However, during the late 1980s and early 1990s, electronics employment grew rapidly in Scotland, Wales and the North West, largely buoyed by substantial inflows of foreign investment into these regions.

Table 1: Regional employment structure in the UK, 2000 (employees in employment ⁽¹⁾)

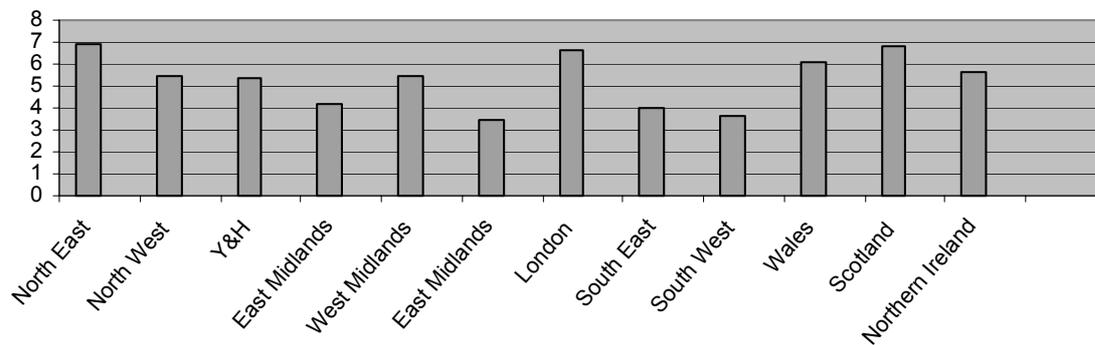
Region	Agriculture & other primary sectors (%)	Manufacturing (%)	Distribution, catering, repairs (%)	Financial & business services (%)	Public sector ⁽²⁾ (%)	Whole economy ('000)
North East	0.9	18.2	21.9	12.6	29.6	962
North West	0.7	17.6	24.6	15.9	25.9	2,835
Yorks/Humb	1.2	18.4	23.9	15.2	25.6	2,079
E.Midlands	1.9	22.1	23.3	14.3	23.9	1,732
W.Midlands	1.0	21.6	23.4	15.5	23.6	2,286
East	1.8	15.0	25.7	19.5	21.7	2,231
London	0.2	7.1	21.8	33.6	19.6	4,053
South East	1.2	12.1	25.7	22.9	22.3	3,645
South West	1.8	15.0	26.2	16.3	26.5	2,010
Wales	1.5	18.6	22.3	12.1	30.3	1,078
Scotland	2.8	13.6	22.7	16.8	26.9	2,229
Great Britain	1.3	15.1	23.9	19.7	24.0	25,141

Source: Office for National Statistics, Regional Trends 37. Table 5.4 Employee jobs: by industry and sex, December 2000. Notes: ⁽¹⁾ percentage figures exclude some small industrial sectors; ⁽²⁾ Public administration, defence, education, social work, health services.

4.2 Unemployment

Unemployment trends in the regions have broadly followed national shifts over the past two decades – decreasing in the boom years of the late 1980s, increasing in the recessions of the early 1980s and early 1990s, and falling consistently during the mid and late 1990s. In general, while unemployment rates fluctuated significantly over the past 20 years, the range in unemployment rates stayed broadly the same – from a range of 2.6-7.9 percent in 1979 to 6.8-11.3 percent in 1996 and 3.4-9.2 in 2000, although the definitions changed considerably over the period. However, the latest figures show a contraction to a range of 3.5 percent (Eastern) to 6.9 percent (North East) (see Figure 2).

Figure 2: ILO Regional unemployment rates in the UK, 2002 (%)



Source: Office for National Statistics, Regional Trends 37. Table 5.1.

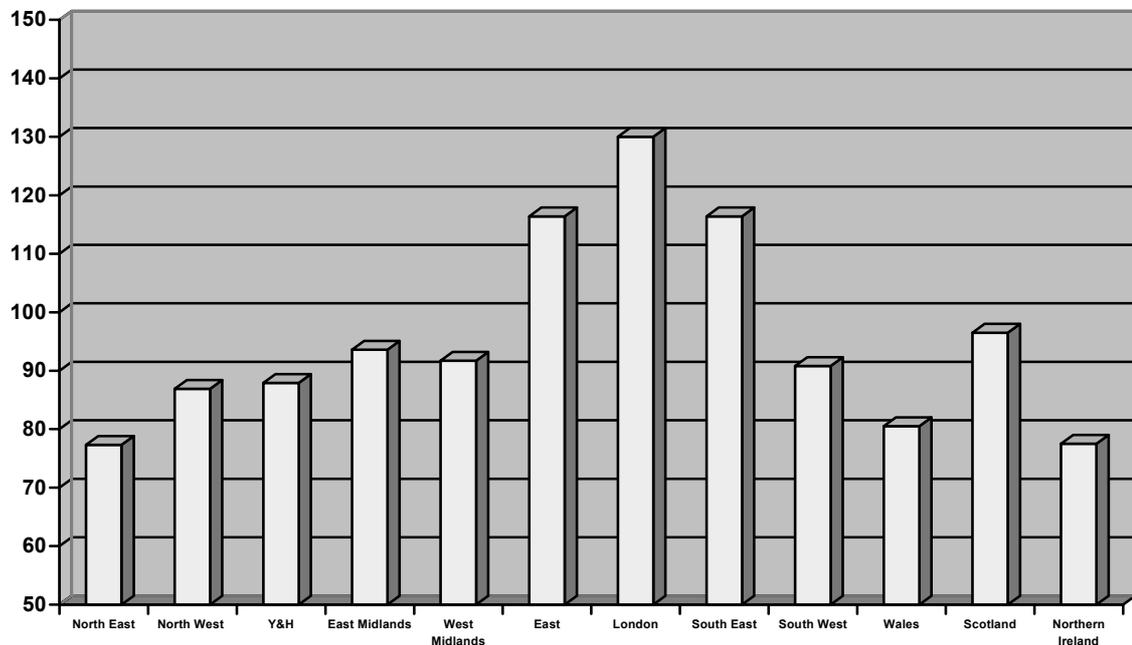
The ranking of regions has not altered appreciably over the period (apart from the emergence of Greater London as having severe unemployment problems). Although temporary differences in the direction of unemployment change can happen due to the ‘staggered’ effects of macroeconomic conditions on regional economies, in general, the northern regions have suffered higher than average unemployment rates (particularly Northern Ireland), whereas southern regions (notably Eastern region and the South West) have tended to have lower unemployment. This point is reinforced by trends in long-term unemployment – regions such as Northern Ireland and the West Midlands have experienced persistent problems, in contrast to regions such as Eastern region and the South West.

To this picture, a few caveats should be added. First, some regions have noted countervailing trends in recent years. For example, the long-term unemployed accounted for smaller shares of total unemployment in Wales and Scotland than in many southern regions. Second, while these trends have been consistent between regions, at sub-regional level a more complex picture emerges. Despite the South East’s overall prosperity, pockets of Greater London have among the worst unemployment (overall as well as long-term) in the country. Similarly, the North West contained one of the largest regional unemployment ‘black spots’ (Merseyside) as well as the lowest unemployment areas in the country (eg. Windermere).

4.3 Economic Trends

Regional differences in GDP per head are long-standing; the level of disparity in the late-1990s was similar to regional differences in the early 1970s and mid-1980s. Prosperity is concentrated in the South East and its immediate surrounds, as the region has consistently by the highest per capita output by far, much higher than the next region (Eastern region) – see Figure 3. The least prosperous regions have been Wales and Northern Ireland (the latter in large part due to special circumstances). The regional ranking has not altered substantially over the years, though there have been significant changes in the West Midlands and Northern Ireland (both with particularly faster-than-average growth) and the North East, North West and Yorkshire & Humberside (with per capita income growth declining significantly in recent years).

Figure 3: Regional GDP per head in the UK, 1999 (UK=100)



Source: Office for National Statistics, Regional Trends 37. Table 12.2 GDP at current basic prices.

The regional pattern of income and expenditure has been similar to the pattern for GDP per capita. The South East and London have very major income differentials with the rest of the country because of their disproportionate share of high-wage occupations and labour shortages. There is some evidence that income and expenditure differentials widened between the north and south of the country during the period 1979-1986 and contracted during the period 1987-93. Since then, differentials have widened again over the 1994-99 period. Over the recent period, consumer expenditure, like output, increased faster in the North East, the North West and Northern Ireland, but remained stable or declined in the East Midlands, the South East and the South West.

As a measure of regional business performance, the rates of new firm start-up and failure provide a useful indicator of entrepreneurship and small firm survival. Across the UK, there is considerable disparity in firm formation rates. There is evidence that the least prosperous regions, especially those specialising in traditional heavy industries have had a poor record of new firm formation, whereas the more prosperous regions

have enjoyed relatively high rates of new business growth. The anomaly appears to be Northern Ireland, where the low level of per capita income has not lowered the new firm formation rate significantly below the national average.

5. Conclusion

The 'regional problem' in the UK has become increasingly difficult to define and categorise in simple terms. As in other countries, processes of regional and local restructuring have created a complex map of socio-economic change. During the 1980s, a frequently used concept was that of the 'North South divide', contrasting the differences between two parts of the country divided by a line from the River Severn to the Wash. The divide was justified mostly by comparisons of regional economic performance. Thus, during much of the 1980s, the 'south' – or more accurately, the South East, for many indicators – benefited more from new job creation, especially in private services, and suffered proportionately less from the loss of manufacturing jobs than the 'north'. Other measures include differences in employment type, socio-economic class, income, wealth and social welfare, and voting patterns.

The concept of the North South divide was, however, rather crude. First, it tended to conceal the more basic division between Greater London and the rest of the country. The importance of the capital in the UK's economy has long been attested, but it appears to have grown over the past two decades as service sector activities (particularly in London) have accounted for increasing shares of national income generation and employment. London's economic significance extends to the surrounding regions because of commuting and business relocation patterns, giving rise to the image of an undifferentiated, wealthy 'south'.

Second, the concept has ignored dimensions such as differences in industrial structure, the urban-rural shift and local decentralization. Although there were broad, north-south differences in social conditions and economic prosperity, disparities in variables such as unemployment and earnings were (and are) often greater between localities within regions than between regions. Local inequalities grew during the 1980s – between new and old industrial areas, between prosperous service-based towns and manufacturing communities, and between deprived inner cities and suburbs – dualisms which have occurred across the country.

For a period in the early 1990s, the north-south concept was superseded by different economic development trends. During the 1988-92 period, unemployment grew faster in the southern England than in other parts of the UK, leading to problems of congestion and overheating. In the recession of the early 1990s, the South East suffered a deeper and more prolonged contraction of economic growth and rise in unemployment than the 'northern' parts of the country.

Since the late 1990s, the issue of the 'north-south divide' has returned as a major issue for political, policy and academic debate. There is currently considerable disagreement in the UK about the nature of the regional problem. The view of the UK Government is that there is no longer a fundamental divide between northern and southern parts of the UK. Indeed, in 1999 it published a report (Cabinet Office 1999) specifically to disprove this point, arguing that variations within regions – in GDP per head, unemployment, mortality rates, educational standards etc – are much more striking than those between regions. It also noted the problems suffered in parts of the south of England,

justifying EU assistance under Objective 1 (Cornwall) or Objective 2 (London, Thanet, South West England). This argument has been used to justify a reduction in efforts to promote a redistribution of economic activity through an equity-based regional policy. Instead, the UK Government has pursued a redistributionist social policy (focusing on child poverty, old-age poverty etc) and an efficiency-oriented regional development policy encompassing all UK regions (through the creation of regional development agencies and regional economic strategies in every English region).

It is undoubtedly true that there are important intra-regional variations, but the fact remains that regional inequalities between different parts of the country persist. Three points are worth (re)stating here.

First, there are important differences between northern and southern Britain. Unemployment rates in southern regions are below the national average; the northern regions are above the UK rate. The unemployment rate in North East England is almost three times the rates in South East England. The same is true for a range of competitiveness indicators relating to GDP per capita, earnings, business birth rates, SME activity, corporate R&D, knowledge-based businesses, business performance etc. As the Centre for Advanced Studies in the Social Sciences has noted, the southern regions of England are driving economic growth in the UK. London and the South East are performing as well as the 'top ten' most competitive nations (such as Singapore or Switzerland), while Wales, Yorkshire and the Humber and North East England are ranked alongside nations such as Hungary, Chile and Israel (Competitiveness Index, Stationery Office 2001).

A similar conclusion was derived by Huggins (2003) in his 'UK Index of Competitiveness', encompassing indicators such as business density, knowledge-based businesses, economic participation, productivity, earnings and unemployment:

“While the regions of London, the South East and Eastern, all perform above the UK average, the South West, East and West Midlands, Scotland, the North West, Yorkshire and the Humber, Wales, Northern Ireland and the North West are all significantly under-performing when compared to the UK average.....it is the three 'south-eastern' situated regions of England that are driving economic growth in the UK.”

Second, regional unemployment data may understate the extent of labour market differences. An issue of increasing concern to regional scientists in the UK has been the scale of hidden unemployment (Fothergill 2001, Turok; Edge 1999, Anyadike-Danes et al. 2001). They have sought to counteract the common perception of the UK as a low unemployment country, the implication that regional differences have narrowed and the presumption that the residual areas of high unemployment suffer from a lack of jobs rather than a lack of skills. Instead, it is argued that, in response to major job losses in manufacturing over the past 20 years, there has been a progressive withdrawal of people (men in particular) from the labour market.

Associated with increasingly stringent controls on entitlement to unemployment benefits, men and women have been diverted onto sickness benefits. This is evident in the high numbers of people on sickness benefits in areas of high job loss and also in economic inactivity rates. 'Hidden unemployment' among male sickness benefit claimants has been estimated to range from 7.2 to 8.6 percent of males of working age in Scotland, North West and North East England and Wales, with a total of 863,000 hidden unemployed across the UK as a whole.

Looking at the employment rate (see Figure 1), it is evident that there are big differences between regions, suggesting that the unemployment rates of ‘northern’ regions seriously understate the reality of job shortages (see Table 2). It has been estimated that raising the employment rate of the northern regions to the level of the south of England would require the creation of an additional 850,000 jobs, a figure which would increase to 1.4 million to raise the employment rate to the level of the South East (Anyadike-Danes et al. 2001).

Table 2: The ‘Employment Gap’ in the UK

Additional jobs required to raise the employment rate:		
Region	To average of the South	To average of the South East
East Midlands	40,000	110,000
West Midlands	120,000	210,000
Yorkshire	100,000	190,000
North West	190,000	310,000
North East	140,000	180,000
Wales	150,000	200,000
Scotland	110,000	200,000
	850,000	1,400,000

Source: Anyadike-Danes et al. (2001)

In responding to these challenges, regional policy in the UK has witnessed something of a renaissance in recent years. Since 1997, the UK Government has promoted a new approach to regional policy based on decentralisation. Responsibilities for economic development, along with other policy powers, have been devolved to new government institutions in Scotland, Wales (and intermittently) Northern Ireland. In the English regions, regional development agencies have been established, charged with drawing up and delivering multi-sectoral regional economic strategies that aim to improve regional competitiveness. Although these are important steps towards ensuring a more strategic, coherent and region-specific approach to economic development, it is not clear how the new regional policy will reduce the north-south divide in competitiveness or employment. Indeed, providing regional development support for all regions may exacerbate rather than reduce disparities. With the prospect of losing a substantial share of Structural Funds receipts after 2006, a debate is now under way about the future direction of UK regional policy with a view to improving both competitiveness and cohesion.

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