

REGIONAL SUCCESS AFTER BREXIT

BREXIT STUDIES SERIES

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Centre for Brexit Studies, Birmingham City University, UK

With the vote on 23 June 2016 for the UK to leave the European Union it has become imperative for individuals, business, government and wider society to understand the implications of the referendum result. This series, published in collaboration with the Centre for Brexit Studies at Birmingham City University, UK, examines a broad sweep of topics related to Brexit. It aims to bring together academics from across the disciplines to confront and examine the challenges withdrawal from the EU brings. The series promotes rigorous engagement with the multifaceted aspects of both the 'leave' and 'remain' perspectives in order to enhance understanding of the consequences for the UK, and for its relationship with the wider world, of Brexit, and aims to suggest measures to counter the challenges faced.

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REGIONAL SUCCESS AFTER BREXIT: THE NEED FOR NEW MEASURES

BY

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THINKING INSIDE THE BOX: DEFINING THE PROBLEM

1.1 OVERVIEW

This chapter offers a brief overview of the present state of evidence on regional disparities across Britain. We discuss the importance of different measures of regional economic performance before going on to challenge and extend conventional measures. The post-Brexit environment will pose notable challenges for regional policy, but also offers the opportunity to reassess regional needs and appropriate funding formulae. The chapter is laid out as follows:

- *Introduction* – Brexit forces us to reconsider regional inequalities and the introduction outlines the key issues that need to be addressed.
- *Defining the region* – The shifting sands of British regional policy have seen regions successively redefined from the top down. Here the authors reconsider various regional designations.

- *Existing measures* – This portion of the chapter outlines the main measures used to assess regional economic performance, most notably gross value added (GVA).
- *Commuting* – The chapter then describes how commuting has a major distortionary effect on GVA per capita – a measure used by the European Union (EU) in decisions about structural funding.
- *Demographics* – In this section, we consider the ways in which demographic factors can also have an impact on estimates of regional economic performance and deprivation.
- *Towards a better measure* – The chapter concludes by putting forward preferred measures of regional economic performance, whilst noting that all can suffer from some crucial weaknesses that we address throughout the rest of the book.

1.2 INTRODUCTION

The Brexit vote has shone a harsh light on something that academics and practitioners have known for years: regional differences matter. In the West Midlands, almost 60% of votes were to leave the EU. In London, almost 60% of votes were to remain. Indeed, some have argued that the vote should be seen as the ‘revenge of places that don’t matter’ (Rodríguez-Pose, 2018). This has occurred in spite of the fact that EU structural funding has been concentrated in many of these regions and that a number of them are particularly exposed to EU trade (Los, McCann, Springford, & Thissen, 2017).

One of the most interesting findings from our recent ‘Brexit Roadshow’ has been a pervasive sense of inequity and abandonment across a diverse range of communities.

Comments such as ‘they [London] get everything’ (De Ruyter, Hearne, Guy, Semmens-Wheeler, & Goodwin, Forthcoming) and ‘nobody cares’ alongside disparaging remarks about the local area (De Ruyter et al., Forthcoming) illustrate communities that often seethe with resentment at perceived iniquities in the allocation of services.

Certainly, the extent of spatial inequality within the UK across some measures is striking (McCann, 2016). A man born in Blackpool can expect a lifespan shorter than his Albanian equivalent (Office for National Statistics (ONS), 2016a; World Health Organisation, 2016). A woman born in Kensington, in contrast, can expect to live past her 86th birthday, rivalling Japan for the world’s longest life expectancy. These differences are stark – if Blackpool could halve the gap between itself and Barnet in North London then the effects would be transformative. We also note that there is at least *prima facie* evidence of a link between some of them and the Brexit vote (Bell & Machin, 2016; Pidd, 2016).

This book makes a fundamental contribution to our understanding of these regional disparities in the light of Brexit, by introducing new measures that can help us further our understanding of those areas that have been ‘left-behind’. In doing so, it is necessary to tackle the fundamental issues in a systematic and logical way. As the infographic below demonstrates, the first is the question is what policy makers and practitioners are ultimately seeking to answer. In order to do this, however, the latter two questions must be addressed. After all, the appropriate policy response is likely to be very different depending on the answer to the second question, and much academic ink has been spilled trying to resolve it. In many ways, however, it is the third question that is most fundamental of all. In order to judge potential policy actions, we need to understand what regional success and failure look like.

What can and should be done about these disparities in light of Brexit?

Are these disparities due to the places people live...
...or the people who live there?

What do we need to measure to answer this?

Although we know that regional imbalances in the UK span almost every domain, good policy requires more knowledge than this. In particular, it is necessary to quantify ‘success’ both in terms of living standards and the functional economic geography of an area. Existing measures fail to capture important aspects of both of these and the proposed ‘deflated’ measures can extend our understanding of these.

This book therefore builds upon official data and international best practice to develop a series of measures with which to assess regional living standards and economic performance before exploring the ramifications of these in light of the UK’s vote to leave the EU. We begin by critiquing what has become the *de facto* measure of regional economic performance – GVA per capita – and draw upon existing research to do so.

The main body of the book is concerned with deriving measures to best capture the true differences in both living standards and productivity across regions, particularly given that both academic evidence (Los et al., 2017) and a majority of experts believe that Brexit threatens to exacerbate these (De Ruyter, Hearne, & Tsiligiris, in prep.). Regional statistics in the UK do not take into account differences in the cost of living across the country.

This impacts a wide variety of measures including GVA, household incomes and wages. Happily, methodological developments over recent decades and the emergence of a greater variety of official data sources enable us to make an initial attempt to develop deflators to adjust for these issues. Although some of the methodological distinctions between different deflators are subtle, the overall issue and direction of adjustment is clear.

This is key to developing appropriate policy measures, both to mitigate the impact of Brexit on more vulnerable regions and household and to address many of the insecurities and inequalities that played a factor in the vote to leave the EU. The final portion of the book therefore discusses the policy questions raised by these issues. Brexit affords an opportunity to reassess funding formulae and we argue that this must take the findings of this book into account. Particular attention needs to be paid to the likely evolution of regional policy and funding in the light of Brexit.

1.3 DEFINING THE REGION

Recent years have seen a growing awareness of the importance of regional differences within the UK. Indeed, even the Chief Economist of the Bank of England has recently acknowledged the importance of regional differences across the UK economy (Haldane, 2018). It is clear that not only is the UK spatially unbalanced in an economic and social sense, but as continued interest in the so-called ‘West Lothian question’ shows, there is also a clear political imbalance between the devolved administrations in Scotland, Wales and Northern Ireland and the English regions.

As noted by Benneworth (2006), there are historical antecedents to the present devolution agenda. Added to this is the

need for a distinction between the region as an economic unit and the region as a facet of identity (Roberts & Baker, 2006). Indeed, the rise of a more assertive *English* identity that the Brexit vote has made clear (Henderson et al., 2016) could be seen as threatening this nascent regionalisation of politics. The overwhelming vote against a regional assembly in the North East of England in 2004 (Wood, Valler, Phelps, Raco, & Shirlow, 2006) might be seen in the same vein. Brexit itself exhibits a significant regional dimension with some recent research finding that regional differences in measured (psychological) character traits might have been important in the referendum (Garretsen, Stoker, Soudis, Martin, & Rentfrow, 2018).

Nevertheless, in spite of the fact that regional identity in Britain remains somewhat inchoate, the fact remains that the region is often the more sensible level on which to carry out economic policy. In fact, identity in the UK is often local more than regional – witness the fierce rivalry between underland and Newcastle (those who ‘mackem’ vs. those who ‘tackem’) or Birmingham and the Black Country. This may, in part, be a result of the historic political centralisation of the UK which has seen regional boundaries adjusted numerous times over the past century without adequate study as to what the functional economic geography looks like (Roberts & Baker, 2006).

We are left with three potential ways in which to ‘regionalise’ the UK.

In practical terms, it is not feasible to use TTWAs as they presently stand. Their major attraction is that they potentially capture the economic geography of an area better than any alternative. Unfortunately, for our purposes the 75% threshold is probably not appropriate, particularly given that mean values can be significantly affected by the commuting patterns of a relatively modest number of high income individuals. Given this, their failure to align with any administrative or political boundary is also a disadvantage.

Table 1. Types of Region.

Type of Region	Definition	Strengths	Weaknesses
Travel to Work Area (TTWA)	Defined by the ONS as regions in which 75% of the economically active population work within the area and, simultaneously, 75% of the working population are also resident in the area.	Captures areas with large commuting flows (such as Bromsgrove, Redditch and Tamworth into Birmingham). An official attempt to capture the functional economic geography of an area.	Potentially understates the importance of commuting, particularly for high-income individuals. A 90% figure might be more appropriate. Watford, St. Albans, Basildon and Stevenage are all London commuter towns but are not within the London TTWA. TTWAs also have no political significance (unlike city-regions or even Local Enterprise Partnerships (LEPs)), not least because commuter flows change over time.
City-Regions	Those areas which have become a 'Combined Authority'. Many have elected a 'metro-mayor' plus London, Scotland, Wales and Northern Ireland.	Areas of political significance with some powers over policy making. They also have an interest in local economic performance. This appears to be the level at which further devolution of powers is likely to occur.	Leaves large swathes of the country unaccounted for. London and the devolved nations are different in size and nature to the city-regions. Ignores the impact of substantial inward commuting in most of these areas (and the potential for more of this). Some have sought to mitigate this (e.g. by having 'observer' councils from the surrounding areas).
'Standard' Regions (e.g. NUTS2)	Standard statistical regions used by the EU when determining regional funding. Nowadays largely coterminous with official regions within the UK.	A wider range of data is typically available, particularly for larger regions. As a result, practitioners are typically familiar with the units of analysis.	The regions in question rarely overlap neatly with the economic geography of an area. These regions do not always overlap with the relevant political units (most notably Combined Authorities) either. Regional identity is often lacking (in contrast to, say, German <i>Länder</i>).

Fundamentally, however, there is a relative paucity of data (particularly price data) on these areas, making them unusable for our purposes.

The attraction of using city-regions lies in their political salience. The emphasis of the so-called ‘New Economic Geography’ on agglomeration chimes nicely with this political *zeitgeist*, even though this may be more relevant to present-day developing countries than the UK (Krugman, 2011). Indeed, although the benefits of agglomeration are considered axiomatic by some in the policy community (Swinney, 2016), the empirical evidence is far from incontrovertible.

For example, Frick and Rodriguez-Pose (2018) find that small cities (up to 3 million inhabitants) are most conducive to rapid economic growth and some French data suggest that agglomeration effects are likely to be modest on a plant-level (Martin, Mayer, & Mayneris, 2011). Indeed, although some have found that agglomeration might support productivity growth (Rice, Venables, & Patacchini, 2006), recent work suggests that historical development paths are crucial (Beugelsdijk, Klasing, & Milionis, 2018).

Research suggests that, in the UK at least, the performance of cities and urban areas is intimately linked to the regions in which they are located (McCann, 2016). In addition, choice of residential location within a region (and the associated differences in cost) may in large part be due to differences in amenities offered. This, together with consumer preferences may partly explain differences between urban centres and their associated peri-urban areas and rural fringes. As a result, we initially consider differences at the level of nomenclature of territorial units for statistics (NUTS) Regions, before reconsidering the impact of our results at a more granular level. In doing so, we find some significant differences from published figures and suggest that this has salience for post-Brexit funding.