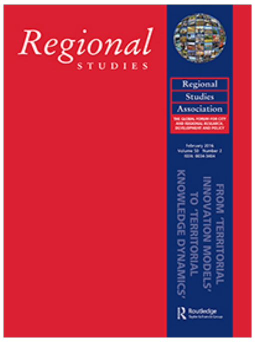

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Policy Debates

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Spatially Rebalancing the UK Economy: Towards a New Policy Model?

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Martin R., Pike A., Tyler P. and Gardiner B. Spatially rebalancing the UK economy: towards a new policy model?, *Regional Studies*. The current UK government has announced its intention to rebalance the national economy spatially, to create a 'northern powerhouse' to rival that in London and the South East. This imbalance is in fact a longstanding problem that 90 years of regional policy has not resolved. This paper argues that the entrenched nature of the UK's spatial imbalance derives in part from the centralized nature of the national political economy, and that only a bold and radical change in that political economy – based on a devolution and decentralization of or economic, financial and political power – is called for.

Spatial imbalance   Regional policy   National political economy   Devolution   Decentralization

Martin R., Pike A., Tyler P. and Gardiner B. 英国经济的空间再平衡：迈向新的政策模型？*区域研究*。当前的英国政府宣佈了在空间上再平衡国家经济的企图，并打算建设“北方动力厂”来对抗伦敦和东南方的发展动力。此般失衡发展，实则为九十年来区域政策未能解决的长期问题。本文主张，英国空间失衡的根深蒂固本质，部分来自于国家政治经济的中央化性质，并且仅能提倡根据经济、财政与政治权力的权力下放及去中心化的大胆、激进的政治经济变。

空间失衡   区域政策   国家政治经济   权力下放   去中心化

Martin R., Pike A., Tyler P. et Gardiner B. Un rééquilibrage de l'économie du R-U: vers un nouveau modèle de politique?, *Regional Studies*. Il serait dans les intentions du gouvernement du R-U au pouvoir de rééquilibrer son économie sur le plan géographique, afin de créer une 'force motrice économique septentrionale' pour rivaliser celle de Londres et du Sud-Est. Le déséquilibre constitue un problème de longue date que 90 ans de politique régionale n'ont pas réussi à résoudre. Cet article affirme que le caractère bien enraciné du déséquilibre géographique du R-U provient en partie du caractère centralisé du système national d'économie politique, et qu'il faudrait une mutation audacieuse et radicale de cette économie politique-là, fondée sur la déconcentration et la décentralisation du pouvoir économique, financier et politique.

Déséquilibre géographique   Politique régionale   Système national d'économie politique   Déconcentration   Décentralisation

Martin R., Pike A., Tyler P. und Gardiner B. Änderung des räumlichen Gleichgewichts der britischen Wirtschaft: auf dem Weg zu einem neuen Politikmodell?, *Regional Studies*. Die derzeitige britische Regierung hat angekündigt, dass sie das räumliche Gleichgewicht der Volkswirtschaft ändern und ein 'nördliches Kraftzentrum' schaffen will, das mit den Zentren in London und dem Südosten konkurriert. In der Tat ist dieses Ungleichgewicht seit langem ein Problem, das auch nach 90 Jahren Regionalpolitik

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nicht gelöst wurde. In diesem Beitrag wird argumentiert, dass das festgefahrene räumliche Ungleichgewicht Großbritanniens zum Teil auf das zentralisierte Wesen der Volkswirtschaft zurückzuführen ist und dass eine kühne und radikale Veränderung dieser Volkswirtschaft – auf der Grundlage einer Devolution und Dezentralisierung der wirtschaftlichen, finanziellen und politischen Macht – geboten ist.

Räumliches Ungleichgewicht Regionalpolitik Nationale Volkswirtschaft Devolution Dezentralisierung

MARTIN R., PIKE A., TYLER P. y GARDINER B. Cambios en el equilibrio espacial de la economía británica: ¿hacia un nuevo modelo político?, *Regional Studies*. El actual Gobierno británico ha anunciado su intención de reequilibrar espacialmente la economía nacional para crear una 'potencia septentrional' que pueda competir con la de Londres y la de la región sudeste. Este desequilibrio es de hecho un problema muy antiguo que la política regional no ha podido solucionar en los últimos 90 años. En este artículo argumentamos que la naturaleza bien arraigada del desequilibrio espacial en el Reino Unido procede en parte de la centralización de la economía política nacional, y que es preciso un cambio valiente y radical de la economía política, basado en un traspaso de competencias y una descentralización del poder económico, financiero y político.

Desequilibrio espacial Política regional Economía política nacional Traspaso de competencias Descentralización

JEL classifications: O18, R11, R58

INTRODUCTION: THE VEXED ISSUE OF SPATIAL ECONOMIC IMBALANCE IN THE UK

Spatial imbalance is a key and longstanding issue

Stimulated by the global financial crisis of 2007–08 and the Great Recession that this triggered, the notion of 'rebalancing the economy' has risen to prominence in UK policy discourse. An important element of this new 'rebalancing' mantra is a concern that the national economy has become too dependent on and dominated by London and the South East, whilst the rest of the country is performing below its potential.[1] As Prime Minister David Cameron noted upon assuming office in 2010:

> Our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country, while we let other sectors like manufacturing slide. 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. We are determined that should change.
>
> (CAMERON, 2010)

Part of the government's policy response is the aim to promote a 'northern powerhouse' to rival London and the South East in scale and scope:

> 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.
>
> (Chancellor of the Exchequer George Osborne; OSBORNE, 2014)

However, the UK government is also anxious that the growth of London is not hindered or compromised in any way. As a recent HM Treasury statement put it:

> Successful rebalancing will not be achieved by pulling down the capital city, but by building up the Northern Powerhouse and creating strong city regions, led by powerful, democratically elected mayors, that benefit from investment in world-class transport and have the support they need to foster innovation.
>
> (HM TREASURY, 2015, p. 70)

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 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 (e.g., CITY OF LONDON CORPORATION, 2011, 2014). On the other side are those who see London as akin to a 'country apart', even a quasi-independent 'city-state', and a region that 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 UK. Indeed, as Vince Cable, Secretary of State for Business,

And so is the debate on whether excessive agglomeration in London has a negative effect on the rest of Britain

Innovation and Skills under the coalition government of 2010–15, ventured: '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 Nicola Sturgeon:

> 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.
> (STURGEON, 2014)

But this concern over an economy tipped too far towards London is actually nothing new (MARTIN, 2015). We have been here before, repeatedly. As early as 1919, the famous geographer (and Unionist MP) Halford Mackinder 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, p. 241)

And in equally emphatic terms, the milestone Barlow Commission report in 1940 on the distribution of the nation's industrial population expressed a similar view, again in language highly prescient of that used by 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, para. 171)

What is clear is that the problem and pattern of uneven regional development – of spatial economic imbalance – in the UK economy is a deeply entrenched and persistent feature, going back to the Victorian era, if not earlier (Table 1).

While the scale of the problem did seem to lessen somewhat over the course of the post-war period up to the mid-1970s, it has never really disappeared, and has resurfaced with a vengeance over the past 20 years. London and the south of England have grown much faster than the rest of the nation (MARTIN, 2004; ROWTHORN, 2010) (Fig. 1), and have pulled progressively ahead in terms of gross domestic product (GDP) per capita (Table 2). The UK now has one of the highest levels of spatial economic disparity of any of the major West European countries (Table 3).

The problem of spatial economic imbalance has thus been a longstanding one in the UK and one to which different governments have given varying attention over the years. Numerous different initiatives have been applied for nearly nine decades, and while during the post-war 'long boom' (roughly 1950–75) regional policy reduced the degree of spatial imbalance compared with what it might otherwise have been, as a whole past policies have failed to have any lasting impact. The next section considers why past policies have proved disappointing.

Table 1. Spatial imbalance in the British economy, 1871–2001: regional gross domestic product (GDP) per capita relative to the Great Britain average (GB = 100)

GB = 100	1871	1911	1971	1981
London	147.3	165.6	123.4	126.0
South East	88.5	124.6	104.6	108.4
East Anglia	97.0	76.8	92.8	94.7
South West	88.6	85.7	93.9	91.8
East Midlands	106.2	90.6	95.7	95.6
West Midlands	84.8	78.4	101.9	95.6
Yorkshire and the Humber	91.3	76.2	92.5	90.2
North West	106.0	97.2	95.3	92.9
North	94.1	89.5	86.1	92.2
Wales	87.7	90.1	87.5	82.0
Scotland	89.9	102.1	92.2	94.8
Coefficient of variation (%)	17.7	24.9	10.5	11.6

Note: Northern Ireland is omitted due to lack of consistent comparable historical data. Estimates refer to the old 'Standard Regions' and are derived mainly from individual tax returns, and hence are essentially residence based.
Source: CRAFTS (2005).

Table 2. Spatial imbalance in the UK economy, 1988–2013: regional gross domestic product (GDP) per capita relative to the UK average (UK = 100)

UK = 100	1988	1993	1998	2003	2008	2013
London	152	149	152	162	169	172
South East	102	102	106	108	109	110
East of England	97	95	99	100	97	94
South West	93	92	89	92	92	91
East Midlands	97	94	93	90	88	83
West Midlands	93	92	93	88	85	83
Yorkshire and the Humber	91	90	89	87	84	81
North West	92	91	89	87	86	85
North East	85	86	80	78	76	74
Wales	85	84	79	76	72	72
Scotland	99	101	96	94	96	94
Northern Ireland	75	79	81	79	79	77
Coefficient of variation (%)	18.8	17.8	19.5	22.9	25.5	26.9

Note: The currently used government office regions here differ slightly from the former old Standard Regions shown in Table 1, and also include Northern Ireland. The data are also workplace based rather than residence based.
Source: Office for National Statistics (ONS).

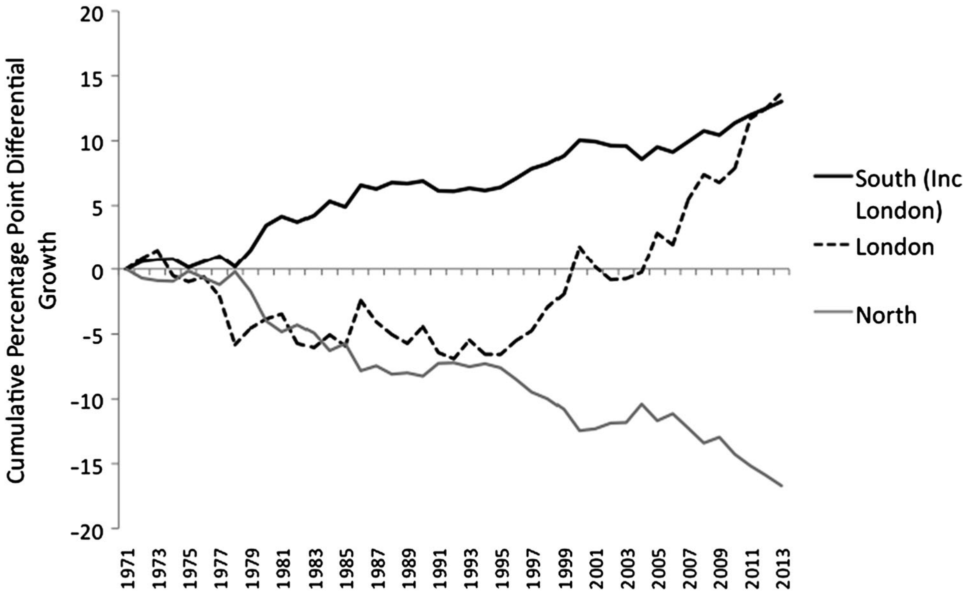

Fig. 1. Cumulative annual percentage point growth gaps in gross value added (2011 prices): the south, London and the north, 1971–2013

Note: Cumulative growth gap is measured as the regional rate of growth minus the UK rate of growth each year, and summed over time. The methodology is that used by BLANCHARD et al. (1992) in a seminal study of regional economic evolutions in the United States. The 'south' is defined as London, the South East, South West, East of England and East Midlands. The 'north' comprises the West Midlands, Yorkshire and the Humber, North East, North West, Wales, Scotland and Northern Ireland.

Source: Cambridge Econometrics, UK Regional Economic Data Base

Table 3. Spatial imbalance in selected European Union countries: coefficient of variation (%) in regional gross domestic product (GDP) per capita (purchasing power standards (PPS), NUTS-2 regions)

	1980	2001	2011
UK	0.31	0.36	0.45
Belgium	0.43	0.44	0.37
Germany	0.35	0.23	0.23
Italy	0.32	0.28	0.22
Netherlands	0.17	0.20	0.21
France	0.15	0.18	0.19
Spain	0.14	0.19	0.15
Greece	0.35	0.21	0.14
EU-15	0.32	0.28	0.33

Source: Cambridge Econometrics, European Regional Data Base.

THE LIMITED IMPACT OF PAST UK REGIONAL POLICIES

Since the 1920s, successive regional policies have tried to reduce spatial imbalances

Since the 1920s, successive UK governments have pursued regional and urban policies of various kinds aimed at reducing spatial disparities in economic prosperity and performance across the country.[2] The first main political experiment was the Industrial Transference Act 1928, which was designed to diffuse social unrest in the areas of structurally declining coalmining and heavy industry of northern England, central Scotland and south Wales, by encouraging the unemployed in these areas to move to jobs and training schemes in the south and east of England. This 'taking workers to the work' scheme had a limited impact, however, and by 1932 was in decline. Its successor, the Special Areas Act 1934, took a different approach of providing government-built industrial premises and grants in the depressed areas to encourage local investment and jobs there, in effect a 'taking work to the workers' policy. Although this new experiment was a response to the problem in the 'special areas', it was overshadowed by a government concern, echoed by leading economists of the day, to provide a general economy-wide stimulus to ensure sustained recovery from the Great Depression (PARSONS, 1986). Indeed, John Maynard Keynes argued that the 'central problem' was one of general prosperity, and the difficulties of the depressed areas were best solved by increased economic activity and demand in the prosperous parts of the country rather than investment directed towards the depressed areas themselves. KEYNES's *The General Theory* (1936) singularly failed to consider that a national multiplier effect would not necessarily lead to recovery and economic renewal in the depressed regions. Only a year after, however, though mainly in the light of the growing pressures on southern industries of the country's rearmament programme, he recognized that the economy had by then reached a stage in which a general stimulus was no longer enough, and that the country was more in need of 'a rightly distributed demand than of greater aggregate demand' and that 'to remedy the condition of the distressed areas ad hoc measures are necessary' (pp. 13–14).

1st generation policies

Modern British regional policy really began in 1945. Infused with ideas and imperatives forged in the Second

World War related to the centralizing tendencies and

2nd generation policies

exigencies of a wartime economy, the goals of post-war reconstruction, the notions of a 'balanced distribution of industry' found in the Barlow Commission's Report, and a new commitment to town and country planning, the 1945 Distribution of Industry Act set the broad framework and orientation of a regional policy model that was to last more or less intact for the next 35 years. Based on a combination of constraints and controls on manufacturing and then also services-based office growth in London and the South East, combined with a series of capital grants in the designated depressed areas of the country, the aim was to divert economic activity and jobs from the former to the latter. This approach was applied extensively over the period 1960–81, and it has been estimated that regional policy added an extra 630 000 additional jobs as at 1981 to the economies of the development areas (MOORE *et al.*, 1986), though a not insignificant number of those jobs were in branch plants of UK companies based elsewhere in the country or of foreign multinationals. However, by the end of the 1970s deindustrialization had firmly set in, the supply of 'footloose' manufacturing investment was drying up, and the regions of the country defined as depressed and in need of government assistance had steadily grown and spread outwards and southwards from the original areas designated in 1945 to embrace some 42% of the nation's working population, itself an indication that regional economic disparities were beginning to widen once again (Table 1).

Thatcher's retreanchment

Over the ensuing two decades (and especially under the three successive Margaret Thatcher governments) this post-war regional policy model was progressively downgraded. The regional policy map was rolled back geographically (to 24% of the working population) and made much more spatially fragmented, policy became much more discretionary and the funding committed to it was reduced significantly.[3]

3rd generation policies

Another shift in policy came in 1997 with the election of the first of the New Labour governments. A new, 'third-generation' regional policy model was forged on the argument that the best approach to fostering growth in *all* of the regions – not just the lagging northern regions but also the more prosperous regions of the south and east, including London – was to focus on building and releasing the 'endogenous' potential of all such areas, using new regional development agencies (RDAs) as the key institutions by which to achieve this goal.[4] Spending was increased, to about £2 billion a year, and by the time that New Labour was ousted by the Conservative–Liberal Democrats coalition government in 2010, a whole raft of measures (from promoting clusters to labour force skills development) had been handed down to the RDAs.

Opinions as to the impact of the RDAs differed, but in any case no sooner had the coalition government been elected than it set about abolishing them, on the grounds that they had proved ineffective, had actually 'distorted market forces' and in any case bore no relationship to meaningful functional economic areas, though little hard evidence was invoked to support any of these criticisms (PIKE *et al.*, 2014). What has followed since between 2010 and 2015 has been an emerging shift to various forms of 'economic localism', as evinced in a 'local growth agenda' (DEPARTMENT FOR BUSINESS, INNOVATION AND SKILLS (BIS), 2010), new local enterprise partnerships (LEPs – no more functionally meaningful than the RDAs they have replaced), enterprise zones, a variety of City Deals, and the beginnings of an experiment in limited city-region-based devolution and pan-city regional cooperation, most notably the 'powerhouse' concept championed by the chancellor the exchequer principally in northern England, but now emerging in the Midlands and South West too. This paper discusses these initiatives below and it argues for being far more radical in approaching the problem of spatial economic balance. The reason for making such an argument is that, despite nearly 90 years of regional policy interventions, substantial regional disparities in economic prosperity remain, and have in fact widened to reach levels not seen since the inter-war years. Past efforts to achieve a more spatially balanced distribution of economic activity and economic growth have failed to have any substantial or lasting impact. Why is this? Three possible explanations might be offered.

4th generation? Mix of localism, experimentalism, 'powerhouses', and city-region devolution deals

PAST EFFORTS TO REDUCE REGIONAL INEQUALITY HAVE FAILED. 3 explanations:

(1) insufficient funding;

First, while the funds committed to regional policy measures over the years have certainly not been trivial, it could be argued that the total spend has simply not been enough to achieve the results desired. At its height of about £2 billion in 1976, just before the then Labour government was forced drastically to cut public spending in the wake of financial turmoil and the International Monetary Fund (IMF) loan, expenditure on regional aid amounted to no more than about 1.5% of gross domestic product (GDP). Such sums were destined only to have a marginal impact on renewing the economies of Britain's northern regions and cities, and at best slowed down the pace of relative decline of these areas. In the same vein, the level of resources that began to be committed to help with the regeneration of the large old northern cities from the 1980s onwards tended to be relatively small in relation to the nature of the problem being addressed and, moreover, some of monies went to help regenerate London and, in particular, Docklands.

(2) regional policy efforts were neutralised by a 'counter-regional policy' made of public spending concentrated in core areas;

A second argument is that the problem was not so much that the funds spent on regional assistance and aid were not significant but that they were dwarfed by other forms of government expenditure – on defence, public procurement, gross fixed capital formation in the public corporations, infrastructure and the like – the geographical distribution of which tended to favour the more economically dynamic south of Britain. In effect, the great bulk of public expenditure acted as a form of what Michael Heseltine (as a member of the Thatcher government) in the mid-1980s described as 'counter-regional policy', working disproportionately to the benefit of the already prosperous areas in the south, helping to stimulate growth there still further. In 1988/89, for example, spending on regional preferential assistance amounted to a mere £617 million, while government spending on defence, fixed capital formation, general industry support, labour market programmes and public procurement totalled more than £24 billion (Martin, 1993). The prosperous South East alone attracted half of national defence spending, seven times the spend on regional policy aid in that year. Although the north, Wales and Scotland – the main assisted regions at this time – received more from defence spending than in official regional policy aid, the amount received was still only one-third of that going to the South East. During these same years, the state was privatizing large sections of certain public industries (such as coal and steel), most of which were concentrated in the depressed regions, deepening the deindustrialization in these areas (Hudson, 1986). Over the post-war period, 'non-regional' government expenditures have been vast compared with the sums devoted to official regional policy. These expenditures have had far-reaching direct and indirect effects on the productive capacity and efficiency of the regions. But these effects have been highly differentiated across the country, and in many respects have operated as 'counter-regional' policies, favouring the more prosperous south against the north.

A third reason why regional policies have had such limited purchase on spatially rebalancing the national economy lies in the nature and geographical articulation of the UK's system of national political-economy. At stake here is the very diagnosis of the country's problem of spatial economic imbalance. During the inter-war years, and throughout much of the post-war period, up until the beginning of the 1980s, the problem was deemed to be structural in nature, a lack of demand for the products and exports of the depressed areas of northern Britain, encumbered as these regions were with old industries faced by more efficient and cheaper competitors elsewhere (often overseas). In short, much of northern Britain had the wrong industries. From the 1980s onwards, the diagnosis shifted away from structural obsolescence to supply-side-type explanations, in which the slow growth of the depressed north was attributed to a lack of enterprise, innovation and skills, and to labour market inflexibilities. No doubt elements of each explanation may have had a disproportionate impact on northern cities and regions relative to their southern counterparts, but in each case the reasons for these weaknesses have resided in deeper more fundamental and systemic features of the political and institutional landscape of the country, in the geographical fabric of economic governance.

(3) A third explanation points to the geographical fabric of economic governance

THE CASE FOR A NEW SPATIAL POLITICAL ECONOMY

The argument that the concentration of economic activity, growth and prosperity in London and the South East is merely testament to the 'natural workings' of market-driven agglomeration tends to miss an important point. While few would deny the role and benefits of economic agglomeration, this fundamental mechanism does not take place in a political–institutional vacuum. On the contrary, it is shaped by the form, operation and spatial organization of the nation's core institutions, governance structures, political arrangements and policy-making machinery. And in the UK, these structures have themselves become progressively concentrated in London and its environs. This has been a long and highly path-dependent process. As the historical seat of national government, the early location of the nation's key financial institutions (HM Treasury, Bank of England, Stock Exchange, Lloyd's Insurance), and its attraction of corporate headquarters, London has long dominated the nation's key institutions and the outlook of the elites within them. Time was when Britain had a local and regional banking system, a network of local stock exchanges in addition to the London market, distributed across some 22 cities, a system of local government municipal finance in which the majority of funds were raised and spent locally, a press system based in the country's major cities, and so on. One by one, these organizations and structures have become rationalized, centralized and controlled from London, often with explicit or implicit state involvement.

The fundamental mechanisms of economic agglomeration are shaped by political-institutional factors

London has slowly absorbed organisations and structures once territorially spread around the country

The self-reinforcing spatial 'agglomeration' and interaction of these institutions, from the political, to the financial, to the corporate, to the media, has cemented over time a highly London-centric view of the 'national' economic interest – precisely what Mackinder expressed concern over. The unquestioned conventional wisdom is that what is in London's interest is *necessarily* in the nation's interest. It is certainly the case that much of national policy – such as fiscal and monetary policy, infrastructural policy, welfare spending, and so on – are determined in London. But the fact is the bulk the UK economy, in terms of production and employment, is located *outside* London and the surrounding South East. Of course, every nation has a capital city, and in many cases the capital contains key national institutions. But in few other advanced countries does the national capital exert such dominance and influence as does London over the rest of the UK.

Spatially rebalancing the UK economy is thus not just about (yet) another round of spatially focused policy programmes and initiatives seeking to promote the advantages of agglomeration in cities outside London, better coordinating economic and spatial planning between the constituent parts of the UK, boosting innovation in the regions or improving the infrastructures of city-regions in the north, necessary and important though such interventions might be (e.g., BAILEY *et al.*, 2015). At this potentially decisive moment, the need is for more fundamental change, about the need to undertake a long-overdue spatial rebalancing of the nation's institutional and governance architectures.

To put the issue simply, the time has come in the UK *spatially to decentre the power structures that drive and manage economic growth and development.* Unless there is a greater spatial balance in those structures, the national economy itself will remain spatially unbalanced. The solution suggested here is a much-needed introduction of a federated or semi-federated model of economic and fiscal governance. Some version of regional or city-regional federalism is increasingly the norm in almost all other Western advanced economies. Many European countries moved in this direction from the 1980s onwards (HARVIE, 1994). Although the UK has ventured down the path of devolved powers for Scotland, Wales, Northern Ireland and London, since the late 1990s it has failed to develop the kind of institutionalized frameworks used in federal systems (e.g., Austria, Germany, Switzerland) or countries with devolved systems of government (e.g., Italy, Spain) to coordinate policy objectives and instruments for territorial balance across the constituent parts of the nation.[5] Further, the devolution process involving Scotland, Northern Ireland and Wales has failed to attenuate the highly centralized fiscal and governance structure in England.

SUGGESTION: INTRODUCTION OF A SEMI-FEDERATED MODEL OF ECONOMIC AND FISCAL GOVERNANCE

However, an historic and potentially formative opportunity is opening up, especially in the wake of the Scottish independence referendum in 2014. Further constitutional change in Scotland, with the promise of more devolution of fiscal and policy powers, has been initiated by the Smith Commission, and new powers have been announced for Wales. Changes discussed for Scotland include enabling the Scottish parliament to be responsible for raising around 40% of Scottish taxes and allocating around 60% of its spending. This devolutionary moment has encouraged new thinking in England about moving beyond the ad hoc and piecemeal approach to decentralization and the increasing plethora of largely uncoordinated local and city-based initiatives introduced in recent years (such as the LEPs, the local growth fund, the new enterprise zones, the City Deals, devolution deals, etc.) towards a new spatially devolved model of economic development. Already in 2012, now Lord Heseltine had argued for the devolution £49 billion of central government spending each year. The chancellor of the exchequer's idea of stimulating a 'northern powerhouse' based on the 'super metro-region' of Liverpool–Manchester–Leeds–Sheffield has itself stimulated a call for 'metro-devo' not only by Greater Manchester but also by other city-regional and/or county groupings. Indeed, government received 38 proposals for further decentralization (including four from Scotland and Wales) in its latest round of devolution deal-making (O'BRIEN and PIKE, 2015). The Cities and Local Government Devolution Bill provides some indication of the government's proposed direction of travel providing enabling legislation for the devolution of powers to city-regions with elected metro-mayors. Cities will have increased powers over areas including housing, transport and strategic planning, but it is not yet clear what all this will actually add up to in making an effective contribution to spatial economic rebalancing across England.

Changes should lead to a new spatially devolved model of economic development where local tiers are able to raise taxes and decide on their spending

Together, current developments suggest that the possibility of constructing a new spatially devolved model of political–economic governance within the UK may be emerging. However, at the present time, while these are steps in the right direction, this movement has the hallmarks of relatively ad hoc and piecemeal reform, in which some constituent nations, regions and cities areas will be granted certain devolved powers while others will not – a highly uneven, unequal and potentially unstable and divisive settlement that may do more to promote further spatial imbalance rather than work towards ameliorating it. Places with weaker economies, tax bases and prospects could be rendered fiscally exposed and vulnerable without appropriate safeguards and equalization mechanisms. One could all too easily end up with a geographically chaotic and divisive system. This outcome would be another episode of the long tradition of 'muddling through' characteristic of policy initiative and reform management in the UK. Rather, what is called for is a coherent and comprehensive UK-wide strategy and long-term plan for addressing spatial imbalances that recognizes the new constitutional realities with respect to the devolved administrations, and which offers meaningful and appropriately resourced decentralization to regions or city-regions in England within an overall federal territorial structure that covers the whole of the UK.

The purpose here is not to set out the precise details of such a new spatial political economy. Such issues require wider social deliberation perhaps through a national constitutional convention for the UK. Rather, the focus is on some of the foundational issues, or building blocks, in relation to such a structure, namely: institutionalizing spatial economic balance as a policy objective, decentralizing and devolving governance, decentralizing public administration, fiscal devolution, decentralizing the financial system, and establishing a national regionally organized investment bank.

CORE ELEMENTS OF THIS PROPOSAL: FORMALISE SPATIAL REBALANCING AS A POLICY OBJECTIVE; DECENTRALISE AND DEVOLVE GOVERNANCE; FISCAL DEVOLUTION; ESTABLIS A REGIONALLY-ORGANISED NATIONAL INVESTMENT BANK

INSTITUTIONALIZING SPATIAL ECONOMIC BALANCE AS A POLICY OBJECTIVE

For too long the notion of what constitutes 'regional (and indeed 'urban') policy has been restricted to the system of officially designated and specifically spatially targeted interventions and expenditures. In reality, almost every government policy and form of government expenditure, although ostensibly 'non-spatial', has impacts and repercussions that vary from region to region. As mentioned above, these 'national' policies can even act as 'counter-regional' policies, favouring already prosperous regions and cities over less prosperous ones. Given variations in economic structure and competitiveness between the UK regions, for example, there is no form of monetary policy or fiscal policy or government expenditure that is spatially neutral in its effects. Whether it be reductions in the higher rates of income tax, changes in the bank rate (for example, in response to inflation), cuts in public expenditure (such as reductions in the central government grant to local authorities) or new spending on infrastructure, the impact on economic growth, jobs and incomes can be expected to vary from region to region. The positive or negative multiplier effects of increases or reductions in government spending do not fall equally across space. However, these varying impacts are rarely taken into account in the design or implementation of national policies. Put another way, there is a lack of explicit appraisal of what the regional impacts of major spending (or austerity) programmes and policies might be.

As one example, it is well known that geographically concentrated and unbalanced regional development can impart an inflationary bias to the national economy, and thus limit the scope and impact of macro-economic management. London is arguably the most inflation-prone region in the UK in terms of land values, office rents, housing costs and wages. The last three house-price bubbles have started there and then diffused outwards across the regions. Monetary measures taken to dampen such 'national' inflation waves, such as raising the interest rate, while perhaps justifiable and helpful in terms of controlling inflation in the London–South East region, may in fact be quite damaging to economic activity in the north of the country. This was the concern in 1998 when the then Governor of the Bank of England, Eddie George, provoked complaint when he stated that 'job losses in the North were an acceptable price to pay for curbing inflation in the South'. He went on to add that while rising unemployment in the North East was undesirable 'monetary policy can only target the economy as a whole, not particular regions or sectors, however uncomfortable that reality might be'.[6] If there is an argument for a more spatially balanced economy, this must surely be a leading contender.

What has long been missing in national policy making is a 'spatial literacy' that attempts to recognize what the regional impacts of a given national economic policy are likely to be, and whether and to what extent that policy can be designed in a way that minimizes any adverse or negative impact on the less prosperous regions. In other words, there is a strong case for institutionalizing the goal of spatial economic balance within national policy-making, not as some ad hoc add-on, but as an integral component of such policy-making. This in turn implies the coordination, wherever possible, of central government national policies and expenditures with one another and with those other measures explicitly targeted to individual regions and cities as part of the rebalancing effort, and using national policies and public investment programmes to help secure spatial balance across the national economy.

Institutionalise the goal of spatial balance within national policy-making

A typical case in point is national physical (and soft) infrastructure, particularly as it relates to connectivity. It is widely recognized that modern and efficient public infrastructure is key to economic growth and competitiveness, regionally and nationally, and there is increasing political debate over the need to improve and extend transport links between the regions and between the cities of the UK. This is well illustrated in relation to access to good-quality air connections. And yet, as the recent National Connectivity Task Force (NCTF) (2015) report has shown most clearly, increased constraints on runway capacity over the last 20 years have led to domestic services from the UK's regions being displaced from Heathrow to Gatwick and other London airports. (There are only seven UK domestic routes left to and from Heathrow compared with the 17 that operated in the late 1980s.) The loss of connectivity to the international hub of Heathrow has impacted negatively on the competiveness of businesses outside the south of the UK. As Lord Shipley remarks in the foreword to the NCTF report:

> A policy of non-intervention has for twenty years led to the prioritisation of international air access over domestic services at Gatwick and Heathrow. This policy can no longer be defended when from the middle of the next decade there could be in excess of 250,000 additional take-off and landing slots to be released as a result of a new runway being opened. As we seek to rebalance the country's economy and generate real and lasting growth, domestic air connectivity to and through London and the South East matters greatly. The rest of the UK should no longer be required to rely so heavily on overseas hubs for global connectivity. The UK needs to be able to meet its own strategic infrastructure needs if it is to be able to compete globally.

As another example, the proposal to build a new high-speed rail link between London and Birmingham, and eventually to Manchester and Leeds (so-called High Speed 2 – HS2), at a possible cost of £50 billion or more has attracted criticism not only from other cities that the proposed new rail link will bypass and to which they will lack connections but also from other cities in the north and north-east which desperately need a modern and efficient east–west link. At the same time, the government has prevaricated over its £38.5 billion five-year upgrade to major rail lines in the Midlands and north of England, which hardly squares with its campaign to rebalance the country and create a 'northern powerhouse' (Topham and Pidd, 2015). The problem is that there appears to be no coordinated thinking in government transport infrastructure planning, and certainly a lack of ensuring that major public investments of this kind link to and are consistent with rebalancing objectives. Indeed, as set out in HM Treasury's *National Infrastructure Pipeline* (2014), planned infrastructure investment in London amounts to 22% of the UK total, equivalent to £5305 per head, compared with £414 per head in the North East. Even in the North West, planned expenditure is well below that in London, at £1946 per head (see also Sheffield Political Economy Research Institute (SPERI), 2015).

so that expenditure is more evenly distributed, and policy initiatives do not exclusively favour London

There is knowledge, experience and models in other countries that can inform how the UK might think about, adapt and develop a more coordinated approach to delivering its national objectives, not only just on public investment but also other major expenditure areas such as education, training, research and development and so on, in order to achieve better the objectives of spatial rebalancing. Learning from and adapting the approaches and institutional arrangements and practices from other national political economies can be informative. One such coordination mechanism is the formal Joint Task 'Improvement of Regional Economic Structures' in Germany (*Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur*). This brings together the federal government and regional state (*Land*) governments to set out an annual framework plan, with a calibrated voting system to ensure consensus across the levels of government. A more informal model is the Austrian 'Spatial Planning and Development Conference' (*Österreiche Raumordnungskonferenz*) that coordinates national strategies and the territorial development interests of different levels on a voluntary basis. More generally, there are lessons from countries like Norway which produces a White Paper for each new government – based on extensive research, evaluation and analysis – on the state of regional disparities and the priorities for regional and local development across the country. While there does appear to be a welcome recognition of the importance of spatial rebalancing as a foundation for national growth and prosperity emerging across major UK government departments – most recently by HM Treasury (2015) – this needs to be explicitly institutionalized and coordinated as a key objective within departmental spending and policy programmes, and those programmes should themselves be consistent with the development needs of the regions.

DECENTRALIZING AND DEVOLVING GOVERNANCE IN ENGLAND

Besides the need to institutionalize spatial economic balance within the policy machinery of national government, there is also scope for further decentralizing certain sections and functions of central government and the civil service from Whitehall in London to other parts of the UK. Decentralization not only reduces costs but also it increases Whitehall's spatial awareness as well as the connection of central government with the regions (Smith, 2010). Echoing calls from just over a decade ago (Massey *et al.*, 2003), a new round of public sector dispersal is warranted, and would reinforce the broader decentralization of governance advocated below. The same principles should guide an assessment of decentralization of public administration within Scotland, Wales and Northern Ireland.

The asymmetrical and uneven nature of governance arrangements in the UK is acute. Enhanced decentralization of the UK's governance system in England could provide the greater powers, freedoms, flexibilities, resources and fiscal capacity required to enable meaningful decisions to be made and funded at appropriate scales. Some kind of road map for decentralization in the UK would be beneficial to the spatial rebalancing agenda. The road map could outline the vision, direction and speed of travel and address the limitations of the current ad hoc, piecemeal and uneven deal-based approach. This approach has created uncertainty, generated short-term demands for governance bodies and partners to articulate their propositions, underpinned perpetual reorganization and only modestly begun to change the structures and cultures of centralization ingrained in the UK political economy. Moreover, the democratic and political accountability of emergent governance arrangements remains underdeveloped and little seems to have been learned from the public rejection of the elected regional assemblies with their limited powers and resources in 2004 (Rallings and Thrasher, 2006). While there is some consensus on the failings of the centralized governance system in England, there is much less agreement and clarity on what should replace it. Any new path through these thorny issues could build upon the House of Commons Political and Constitutional Reform Committee's current enquiry into the future of devolution in the UK in the wake of the Scottish independence referendum result and the revived interest in a federal UK (Blick and Jones, 2010).

Decentralisation could provide greater powers, freedom, flexibility, resources and fiscal capacity to enable decisions to be made at appropriate scales

.. although there's less clarity about the geographical basis for such devolution/ decentralisation

A basic question, of course, concerns the most appropriate geographical basis for such devolution or decentralization. The history of economic governance in England is one of 'compulsive re-organisation' (Jones, 2010, p. 374) and 'perpetual restructuring' (Mulgan, 2010, p. 1), as repeated institutional experiments have tried to address the 'missing middle' (Shaw and Greenhalgh, 2010, p. 457) between central and local government. Building on the regional planning system established in the late 1940s, this process resembles a pendulum oscillating in the post-war period between the regional (early 1960s), local (*c.*1979–94), regional (1997–2010) and local (2010–) scales (Pike *et al.*, 2015). Ideally, the spatial units should be functional economic regions, but practically would need to be built up from existing administrative areas. The former eight English RDAs, which were based on government office regions, were abolished by the coalition government partly on the very grounds that they did not represent meaningful economic units, were too large, and unaccountable (Pike *et al.*, 2014). The 39 LEPs, based on groupings of local authority districts, that have been established in place of the RDAs as the basis for the government's Local Growth Agenda, are supposed to be more meaningful in economic terms. But many of the LEPs are no more functionally meaningful than the former RDAs, many are somewhat arbitrary alliances, several of them overlap and many are too small (Pike *et al.*, 2015). An alternative approach is to think in terms of city-regions, or what in most cases would be regional groupings (systems) of interconnected cities and their surrounding hinterlands. The emerging 'metro-region' of Liverpool–Manchester–Leeds–Sheffield may well be one such. But the challenge is to partition the whole of the UK into economically meaningful city-regions and associated hinterland areas. The City Growth Commission (2014) has identified some 15 major cities across the UK that could be the cores or joint cores of surrounding linked regions for governance, fiscal and economic policy purposes. But this proposal would still leave much of the East of England and South West regions without such units. What is needed is a thorough-going enquiry into how best to define and delineate a nationwide system of city-regional and county-regional areas that could function as a devolved governance structure able to build capacity to govern and capable of controlling total local public spending, with legal powers to enact joined-up government, power over local property taxes, and powers to reinvest proceeds and savings locally. Such city-regions and county-regions should be democratically constituted, and able to formulate their particular governance structures, for example, elected mayors and assemblies, rather than having them imposed from the national centre. Marrying bottom-up and top-down institutional reforms, such functional economic groupings will need to be articulated with the emergent administrative map of local authority collaborations emerging across England (Paine and Smulian, 2015).

An option is to think about city-regions

FISCAL DEVOLUTION

As the UK has sought to come to terms with the spatial consequences of its industrial decline, much has been learned about how to enhance the rate of local economic growth. Local areas start with an inherited pattern of land use and a resource base and institutions that were tailored to another era. The legacy of the past can weigh heavily, and adapting to new futures can be difficult. In the last 30 years, the challenge in many areas has been to bring about economic, physical and social renewal and reorientation against a backdrop where much of their existing stock of floor space, human and physical capital was configured to produce goods that either no longer exist or are now made elsewhere in the world (Baxter *et al.*, 2007). In order to achieve such renewal and reorientation, sustained and substantial effort on several fronts is required, including the promotion of entrepreneurship, innovation, investment, and human capital formation (education and skills) and infrastructure modernization (Gardiner *et al.*, 2013).

At the present time, local growth initiatives across the UK are struggling to gain traction given the scale of the task of economic transformation and adaptation. New ways have to be found to increase the level of resources that can be levered into or retained and pooled to help promote the local growth process and thus speed up the pace at which change can occur. Local authorities in particular are very constrained in their ability to obtain the resources they need in a highly centralized public finance system dominated by pooling and transfers to the local level from the national centre and characterized by the historical accretion of complex political and institutional accommodations and fixes such as the Barnett Formula. Most of the resources that they receive are hypothecated and allocated on a population basis. UK government departments in Whitehall and the devolved administrations still tend to influence and control key decisions in relation to mainstream budgets in the areas of skills, health, housing, business support and much more.

In a highly centralised financial system, local authorities are constrained in their ability to obtain the resources they need

While the international evidence on the relationships between decentralization and regional growth is mixed and shaped by the nature and forms of decentralized governance arrangements (Ezcurra and Rodríguez-Pose, 2013; Tomaney *et al.*, 2011), fiscal capacity and powers are seen as critically important. In the UK the proportion of tax set at the local level in the UK is equivalent to 1.7% of GDP (UK Parliament, 2014). This compares with 15.9% in Sweden, 15.3% in Canada, 10.9% in Germany and 5.8% in France. In addition, the proportion of tax revenues to local government as a proportion of total national tax revenue has actually been falling for 40 years, from just over 11% in 1975 to 4.9% in 2012 (Organisation for Economic Co-operation and Development (OECD), 2015). The UK is strongly out of line with most other comparable OECD countries where, if anything, the proportion has either remained broadly the same or increased, sometimes quite dramatically as in the case of Italy and France, through meaningful fiscal decentralization (Table 4).

The UK is one of the most centralised countries across the OECD

In the face of a severe lack of resources in comparison with other countries and faced with the need to address considerable changes to their physical fabric, economic structures and labour markets, local authorities across the UK have been forced to rely on relatively inadequate discretionary resources – either from UK government in England or from the devolved administrations in Scotland, Wales and Northern Ireland – to

Table 4. Attribution of tax revenue to local and regional government as a percentage of total tax revenue

	1975	1995	2012
United States	34.2	33.1	35.8
Spain	4.3	13.3	42.1
Denmark	30.4	31.9	26.9
France	7.6	11.0	13.2
Italy	0.9	5.4	16.4
Japan	25.6	25.3	24.7
Germany	31.3	29.0	39.8
UK	11.1	3.7	4.9

Source: Organisation for Economic Co-operation and Development (OECD) (2015), Tax Policy Analysis.

local authorities often have to apply for piecemeal packages of support

deliver their local growth agendas and/or work with central government bodies such as the Homes and Communities Agency. They have often had to apply for packages of support from central government that have usually been made available through specific policy initiatives like City Challenge and the Single Regeneration Budget. In other cases, central government has made funding available through initiatives such as development corporations and enterprise zones.

More recently, City Deals have reflected the same process except the UK government has increasingly sought to ensure that specific targets are met, which has further added to the difficulties and complexities that local authorities face in securing funds (O'Brien and Pike, 2015). While the devolved administrations have established strategic economic development frameworks, in England the allocation of resources to LEPs as part of the growth deals and the further devolution deals reflects much the same deal-making and transactional process between the central and the local levels. What now exists is a plethora of piecemeal, largely unconnected, forms of centralized support (mostly allocated locally on a competitive basis) that do not add up to a systematic, sufficiently funded or coherent strategy for spatially rebalancing the economy – a situation recognized by the National Audit Office (NAO) (2014).

So the proposal is to devolve key spending lines to city-regions

It was in recognition of this overly centralized and under-resourced state of affairs that Lord Heseltine (2012) identified some £49 billion of central government spending on skills, infrastructure, employment, housing, regeneration and business support that he considered could and should be devolved directly to city-regions. While the government accepted most of Heseltine's recommendations (HM Treasury, 2013)[7] and in response set up the Local Growth Fund, the scale of resources committed is only just over £2 billion. More important is its pledge to bring the total resources under the strategic control of the LEPs to £20 billion by 2021 (HM Treasury, 2013). This commitment would certainly be a significant move towards fiscal devolution. But it would still fall far short of the scale required. It is not just a case of devolving control over certain areas of central government spending to the city-regions, but also one of permitting such areas to retain all their local receipts from property taxes, business taxes and local services. Greater Manchester alone estimates its receipts to be around £17 billion per annum. And it is far from clear that the system of LEPs is necessarily the most appropriate spatial governance structure through which to achieve this goal. As stated above, many LEPS are not economically meaningful units, nor are they directly accountable as such to local electorates. Yet, as the government itself stresses, the issue of local governance is key to the devolution of fiscal resources.

While also allowing such areas to retain more local taxes

Thus, while there is a welcome emerging recognition of the case for a less centralized and better integrated system of public finances in the UK, this historical opportunity needs to be pursued with greater commitment and coherence of purpose. Accountability, transparency and clarity to connect better where money is raised and spent, where this is decided and how it can be used to stimulate and incentivize sustainable growth and development, are critical. Equalization and safety-net principles need to be retained too in the context of further decentralization and localization of the governance and fiscal system. Such reforms may risk opening up further spatial imbalances and fiscal disparities between more and less prosperous places with stronger or weaker tax bases. The more vulnerable places with greater needs will require support to prevent their exposure and manage their vulnerability within any more decentralized system.

Much work has already been done to explore the potential of these kinds of reforms. The Commission on the Future of Local Government (2012), for example, has called for greater devolution of powers and funding over the drivers of productivity, skills, transport and innovation as part of creating greater civic enterprise by local authorities. Working with the principle of fair outcomes across London and the country as well as the desire to render the governance of financial decision-making more accountable to residents and businesses in London, the London Finance Commission (2013) suggested the further devolution of fiscal powers including the increase of revenue streams under local control. These include property taxes and eventually the 'full suite' of council tax, business rates, stamp duty land tax, annual tax on enveloped dwellings and capital gains property disposal tax, and reduced restrictions on borrowing for investment. This same reasoning is no less applicable to other city-regions across the country, although the highly uneven scale and strength of their tax bases will need to be recognized.

[but risk: different financial powers]

Concrete innovations for fiscal decentralization across the UK would be meaningful progression of place-based settlements for local authority groupings that are multi-annual, multi-sectoral and provide the opportunity to integrate, connect and provide more certainty for longer-term utilization and management of (national and local) public sector revenues and assets (BLOND and MORRIN, 2014). Work on such place-based arrangements including 'total place' and 'community budgets' has already explored the possibilities and reforms in this area and the LOCAL GOVERNMENT ASSOCIATION (LGA) (2015) has called for long-term and place-based finance as the default method of funding with appropriate flexibilities, freedoms and reforms built in (see also HOUSE OF COMMONS COMMUNITIES AND LOCAL GOVERNMENT, 2013).

DECENTRALIZING THE FINANCIAL SYSTEM

The overly centralized and concentrated financial system in the UK has long been recognized as a consistent and deeply entrenched cause of spatial imbalance within the UK. To compound the problem, UK banks have long ago shifted their lending activities away from industry in favour of lending to other financial institutions and offering mortgage finance. In 1950, some 65% of bank lending was to industry; by 2010 that had fallen to 15%. Over the same period lending to financial companies has increased from 10% to 38%, while mortgage lending, which was zero in 1950, accounted for 40% of lending in 2010 (BANK OF England, 2014). Expressed another way, bank loans accounted for only 18% of industry financing in the UK in 2010; this compares with a corresponding figure of 45% in Germany.

The difficulties faced by small- and medium-sized firms in raising capital have been a topic of recurrent concern in the UK (MARTIN, 2013). The government has made much of the need to stimulate advanced manufacturing as part of its concern to rebalance the economy. Many specialist to support small and medium-sized enterprises (SMEs) such as the advanced manufacturing supply chain scheme, but the scale of funds committed (£213 million; BIS, 2013) can only make a modest contribution to the task of rebuilding UK manufacturing. If the UK government is serious about increasing its presence in advanced manufacturing, and increasing the productivity and export performance of manufacturing as a whole (HM TREASURY, 2015), the funding of new investment is an issue that urgently needs to be addressed. To this end, there would seem to be a very real opportunity to use the tax system in the UK to align the objective of more spatial rebalancing with that of more sectoral rebalancing. Government could establish new 'advanced manufacturing bonds' with favourable tax treatment to increase the flow of funds into advanced manufacturing firms, some of which funds might be available as a result of recent changes to pensions. Many northern cities still have significant manufacturing potential and increased investment in this sector would assist them with their growth agendas.

Private finance is very much skewed towards financial services, but there could be greater support to manufacturing and other lending activities to the real economy

Moreover, there is evidence that the geographically skewed nature of the capital markets operates in a spatially biased way, creating funding and financing gaps especially for SMEs and firms in economically weaker and peripheral localities and regions. Globalization, technological innovation, competition, and mergers and acquisitions have accentuated such centralization and concentration. The UK's financial system is overwhelming concentrated in and controlled from London, and national monetary policy (such as interest rates) has tended to be biased towards the concerns of the capital's financial nexus (DEUTSCHE BANK, 2013). Experience from Germany, for example, suggests that a more regionally decentralized financial system is associated with a greater regional evenness in the allocation of funding to SMEs. The German banking system has a significant regional dimension and has traditionally had a close relationship with industry (HUTTON, 1995). Likewise, the spatial organization of the German venture capital market, involving several major centres, contrasts with the situation in the UK, where the venture capital industry is overwhelmingly concentrated in London and the surrounding South East (these two regions contain some 75% of the nation's venture capital firms, and account for 60% of venture capital investment) (MARTIN *et al.*, 2005). Learning from and adapting the experiences of more decentralized systems such as Germany can provide a stimulus for innovation in the UK context.

Moreover, A2F is heavily skewed in favour of London

The uneven access to finance in the UK has prompted the Scottish government to propose a Scottish Business Bank (replacing the Scottish Investment Bank within Scottish Enterprise) and there is a similar debate in Wales about replacing Finance Wales with a Development Bank for Wales. These debates, and emerging institutions, provide lessons for regionally focused investment institutions for other parts of the UK that would concentrate on raising funds for financing long-term productive assets and employment creation, especially in the areas of SMEs and infrastructure (SKIDELSKY *et al.*, 2011; DOLPHIN and NASH, 2012; MERLIN-JONES, 2012; TOTT, 2012).[8] Clearly there are issues to be resolved around what form such institutional arrangements might take, such as the remit of the bank, its capitalization, how it might raise additional funds, its governance structure and potential hurdles to be overcome in setting it up, in particular gaining approval under the European Union's state aid rules. However, workable models exist elsewhere, for example, the German KfW, Finnvera in Finland and the US Small Business Administration.[9] But what would be crucial to any new bank's remit would be the funding of SMEs in the regions outside London and the South East, given that these regions are already well served by the existing centralized financial system. Regional lending data show that SMEs in London have huge net-positive deposit balances, while in many other regions the reverse is the case.

So there's room for regionally-focused new investment institutions

New public investment banking arrangements in England would thus need to have a national and international reach married to an explicit regional structure to its organization in order to be close to the local SMEs seeking funding. Such an institution would provide the sub-national focus that is missing for all parts of the UK, and could help ensure a more spatially balanced allocation of finance to private sector activity (KLAGGE and MARTIN, 2005). And as the German system demonstrates, a more spatially decentralized banking structure need not compromise the credit rating of the institutions concerned (MOODY'S INVESTOR SERVICES, 2013).

CONCLUSIONS: TIME FOR BOLD CHANGE

Whether considered at the regional, local or urban scales, entrenched and persistent spatial disparities in economic and social conditions are a strategically important issue for all the major political parties in the UK. The new UK Conservative government has made much of the need to rebalance the geography of the UK economy (HM TREASURY, 2015). The growth gap between the south and the north (and indeed between most of the cities in the south and most of those in the north; MARTIN *et al.*, 2014a), is longstanding, cumulative and systemic. The problem goes well beyond the economics of urban agglomeration and is rooted in the spatially biased nature of the national political economy (see also MARTIN, 2015). It is time to start thinking about radical changes to that national political economy to decentralize many of its functions and structures to ensure that the citizens of *all* the regions and cities of the UK can share in the opportunities and benefits of sustainable economic growth and development in the years ahead. A decentralized system may be better placed to deal with disruptive change and foster institutional and policy innovation to address economic, social and environmental development needs. This paper has outlined a number of such radical changes to the UK's spatial political economy that are necessary if any substantial and lasting spatial rebalancing of the UK economy is to be secured. Calls were made over a decade ago for 'decentering the nation' (MASSEY *et al.*, 2003) and, to date, only limited and modest progress has been made, especially in England. While recognizing the difficulties and costs involved in such radical change, especially in a period of austerity, the current juncture is potentially more propitious politically for reviving that call (UK COMMISSION FOR EMPLOYMENT AND SKILLS, 2011; IPPR NORTH, 2014). The argument here is that a decentralized framework, involving the meaningful extension of devolution in governance, public finance and the financial system, not only would connect to a growing groundswell of support for more decentralization and provide a boost to the prospects for more sustainable growth and development (CITY GROWTH COMMISSION, 2015), but also would form a key step towards a spatially federated structure for the UK. Unless such a bold step is undertaken, the likelihood is that the issue of spatial imbalance will continue to challenge UK governments well into the future.

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NOTES

1. The issue of spatial economic rebalancing is not unique to the UK, of course. It has become a topic of academic and political concern in several other countries – from China to Chile to the European Union – where uneven regional development pose problems for economic, financial and social stability.
2. Space does not permit a detailed historical exegesis and evaluation of British regional policy here, and what follows is intended simply to point up the main continuities and shifts in policy that have occurred over the past 90 years. The key message to be conveyed here is that despite this long development, and the different variants policies that have been assumed over this time, their overall impact on spatially rebalancing the economy was relatively limited.
3. The retrenchment in spending on regional policy actually began in 1976 as part of public spending cuts imposed by the then Labour government in response to conditions required by the IMF in return for its financial support to the UK economy to enable it to avoid a national currency crisis. The cuts were continued under the Thatcher administration that followed in 1979.
4. The term used was 'endogenous', and indeed more than once appeal was made by the government to its commitment to that branch of economics known as 'endogenous growth theory'. But the policy was as much, if more, about charging the regional development agencies to develop and harness the *indigenous* resources of the regions, hence the claim that this new, 'third generation' regional policy model was to be 'bottom-up' rather than 'top down' (BALLS *et al.*, 2003).
5. Examples of such frameworks include the federal–state joint task 'Improvement of Regional Economic Structure' (Germany), the standing Spatial Development Coordination Conference (Austria), and the federal–canton coordination functions of the State Secretariat for Economic Affairs (Switzerland).
6. BBC News (5 November 1998).
7. Specifically, 81 (in full or in part) of Heseltine's 89 recommendations.
8. In 2012, the coalition government established a national Green Investment Bank (GIB), with publicly funded capitalisation of £3.8 billion, with a remit to invest in UK-

based green infrastructure in energy efficiency, waste and bioenergy, and offshore wind. The chancellor of the exchequer has now announced his intention to privatize the GIB (along with several other public assets) to raise monies to reduce the national deficit, a move that has attracted considerable criticism, including from with government itself (Harvey, 2015).

9. The German KfW is a state-owned bank with various functions, but its two main activities are financing housing and environmental projects, and providing funds for SMEs. It covers over 90% of its borrowing needs in the capital markets, mainly through bonds guaranteed by the national government. This allows KfW to raise funds under advantageous conditions. Its exemption from having to pay corporate taxes due to its legal status as a public agency and unremunerated equity provided by its public shareholders allow KfW to provide loans for purposes prescribed by the KfW at lower rates than commercial banks. KfW is not allowed to compete with commercial banks, but it facilitates their business in areas within its mandate.

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