

Rethinking UK Regions' Productivity and Levelling Up Challenge from the 'Bottom Up': Polycrisis-Era Yorkshire as a System of Systems

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Map

1. Have the 2000s brought us polycrisis or a series of exogenous shocks? Mainstream and heterodox views
2. Conservative UK government response (2010-24) to polycrisis
3. Two ESRC solutions for two independent problems with different causes
4. Addressing Polycrisis: the Yorkshire Policy Innovation Partnership's 'community-led' – bottom-up – approach
5. Implications: A design problem for the UK, and a re-design problem for the EMU and the European Union?

1. Have the 2000s brought us polycrisis or a series of exogenous shocks? Heterodox and orthodox views

The term *polycrisis* is used exclusively in heterodox social-science discourse: there are zero ‘polycrisis’ references in in 4* ‘economics’ journals (*Econlit*).

- Polycrisis occurs due to multiple ruptures in societal processes across interlinked spaces of production, consumption, and social exchange.
- A crisis in one social sphere is amplified by a crisis in another social sphere.
 - For example: the 2008 collapse of globalized financial institutions amplifies and is amplified by crises of housing, mortgage credit, and stratification.

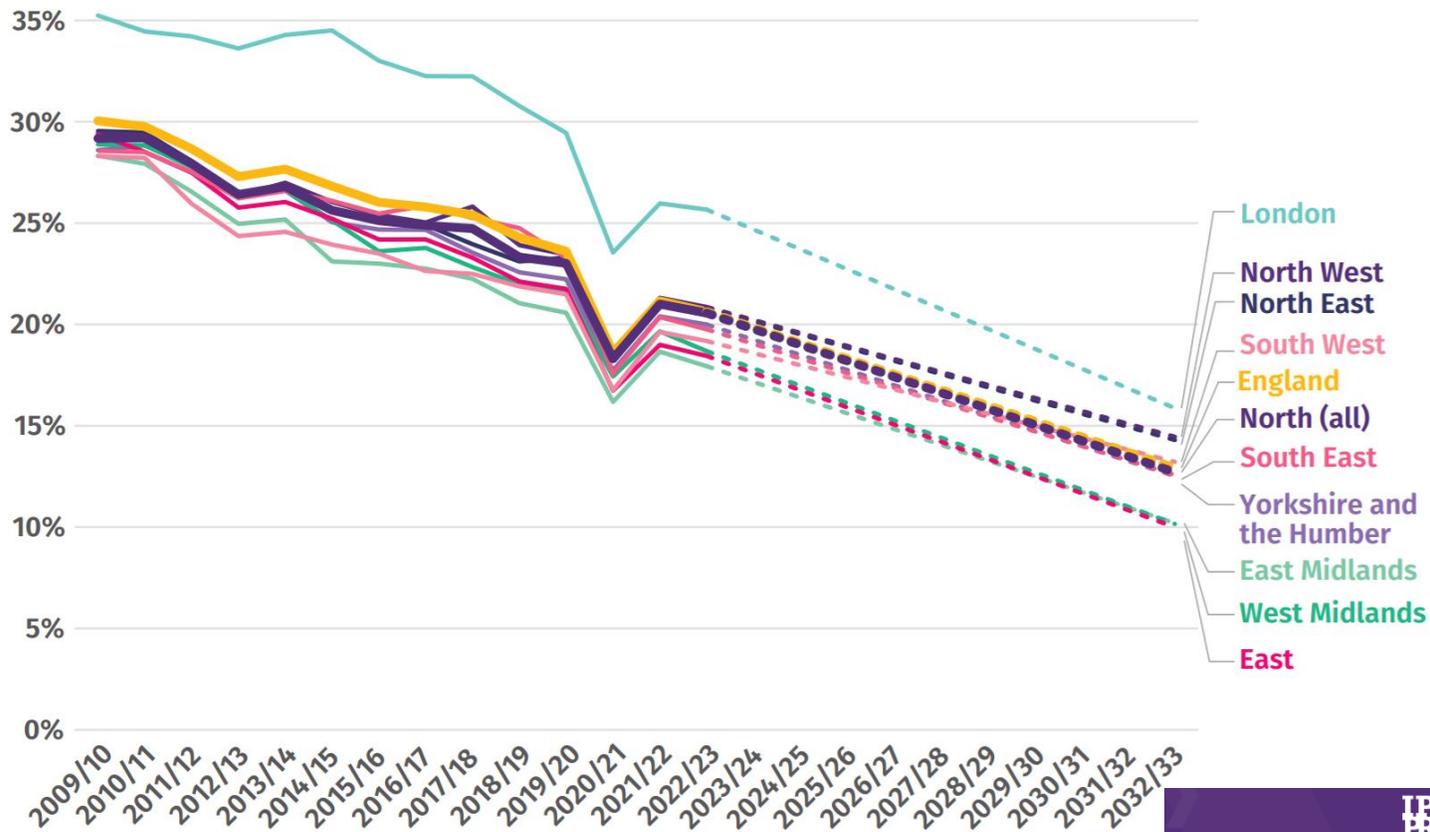
[Housing crisis] + [Stratification] ↔ [‘Subprime crisis’] ↔ [‘Great Financial Crisis’]

- Orthodox economists trace ruptures in market relations to disturbances in the conditions needed for smoothly evolving equilibrium market growth paths.
- You isolate the causes of these exogenous shifts and find solutions one by one.

2. UK Tory govt response to polycrisis: austerity macro policy

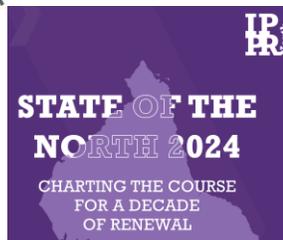
FIGURE 4.1: SPENDING IN ENGLAND HAS CENTRALISED SIGNIFICANTLY AND IS PROJECTED FALL TO BELOW 15 PER CENT OF PUBLIC SPENDING FOR REGIONS OUTSIDE LONDON BY 2030

Share of total public spending accruals spent by local government 2009/10–2032/33 in percentage terms



Note: IPPR North projected trends identified with dotted lines. Due to the extraordinary spending related to the Covid-19 pandemic, we have excluded the 2020/21 fiscal year from our trend analysis. See annex 1 for methodology.

Source: HMT 2023a

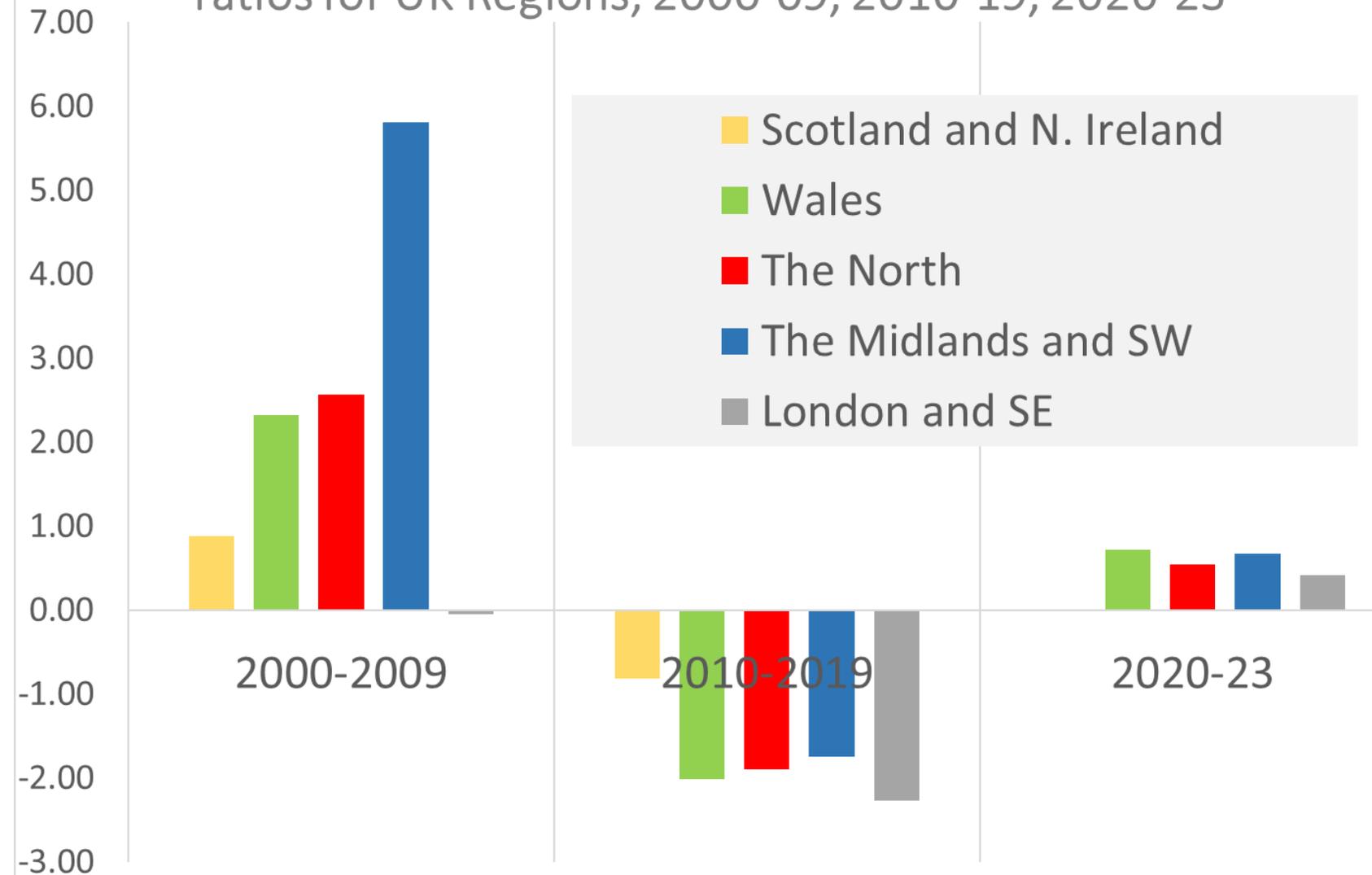


In the ‘Great Financial Crisis’ – a 2008 bank bailout doubled the UK’s (sovereign debt/GDP) ratio. The Conservative government had a golden opportunity to shrink the role of the state in the economy. It took it, sustaining austerity macro policy for its entire 14-year tenure.

Thatcher: ‘There is no such thing as society’ - Orthodox economics: ‘There is no such thing as polycrisis’. There are exogenous disturbances to equilibrium growth, with individually separable causes.

2. UK Tory govt response to polycrisis: fiscal centralization

Percent Change in Public Expenditures/Tax Revenues ratios for UK Regions, 2000-09, 2010-19, 2020-23



Public spending was centralized; local/regional spending was cut.

2000-09 (Labour govt): the public expenditure-to-revenue ratio rose in the regions, on average.

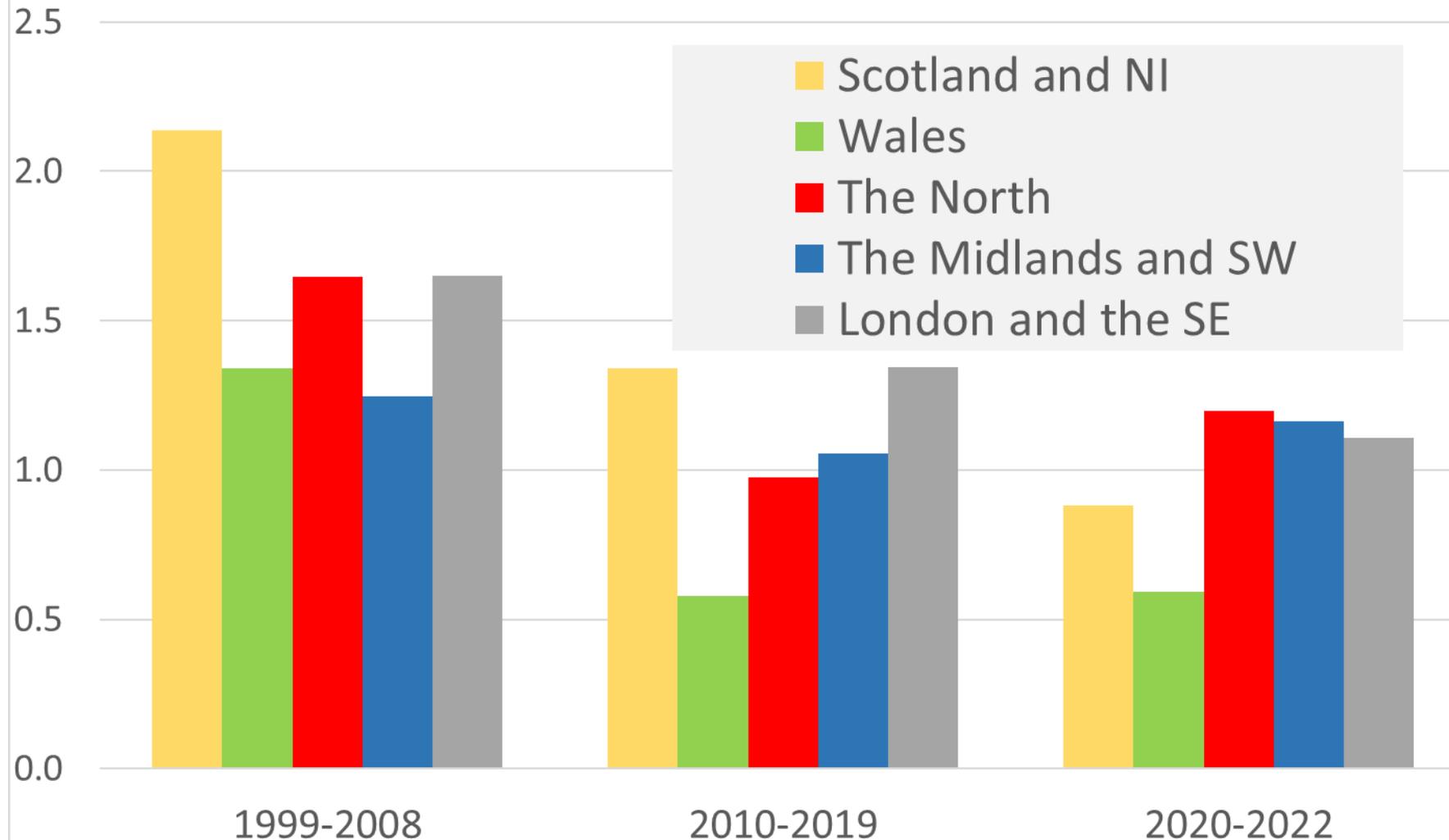
2010-19 (Tory govt): this pattern was reversed.

2020-23 (Tory govt): this pattern re-reversed with the pandemic.

Data: ONS, authors' calculations.

2. Tory UK govt response to polycrisis: slower macro growth

Compound per-capita real income growth rates for UK regions, 1999-2008, 2010-19, and 2020-22

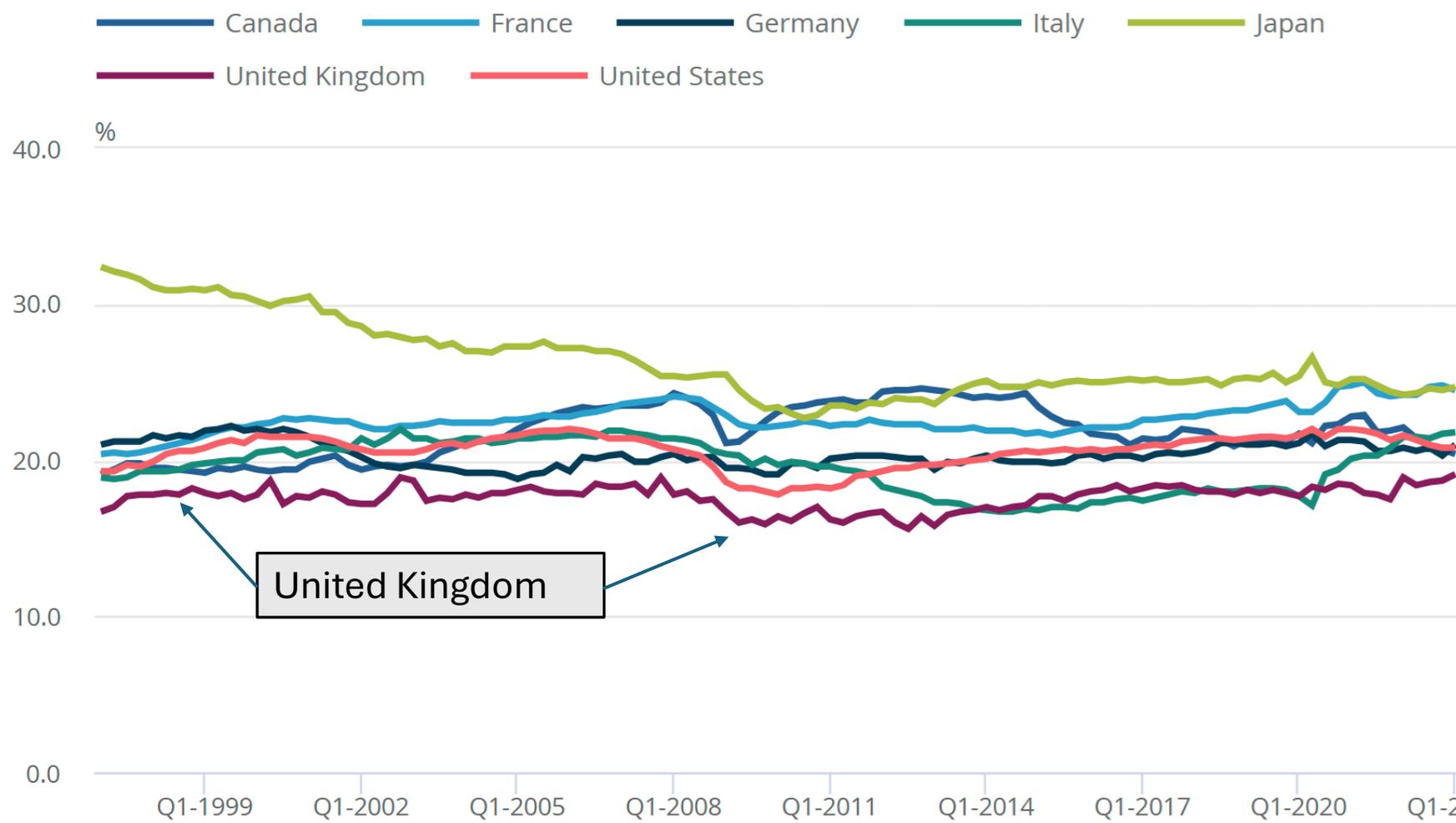


The Conservative UK government elected in 2010 imposed austerity macro policy and eliminated regional planning agencies (including 'Yorkshire Forward').

European governments did the same. UK economic growth across the regions slowed down, only partially recovering after the Covid pandemic shocks.

Figure 4: UK investment as a proportion of gross domestic product (GDP) remains lower than other G7 economies

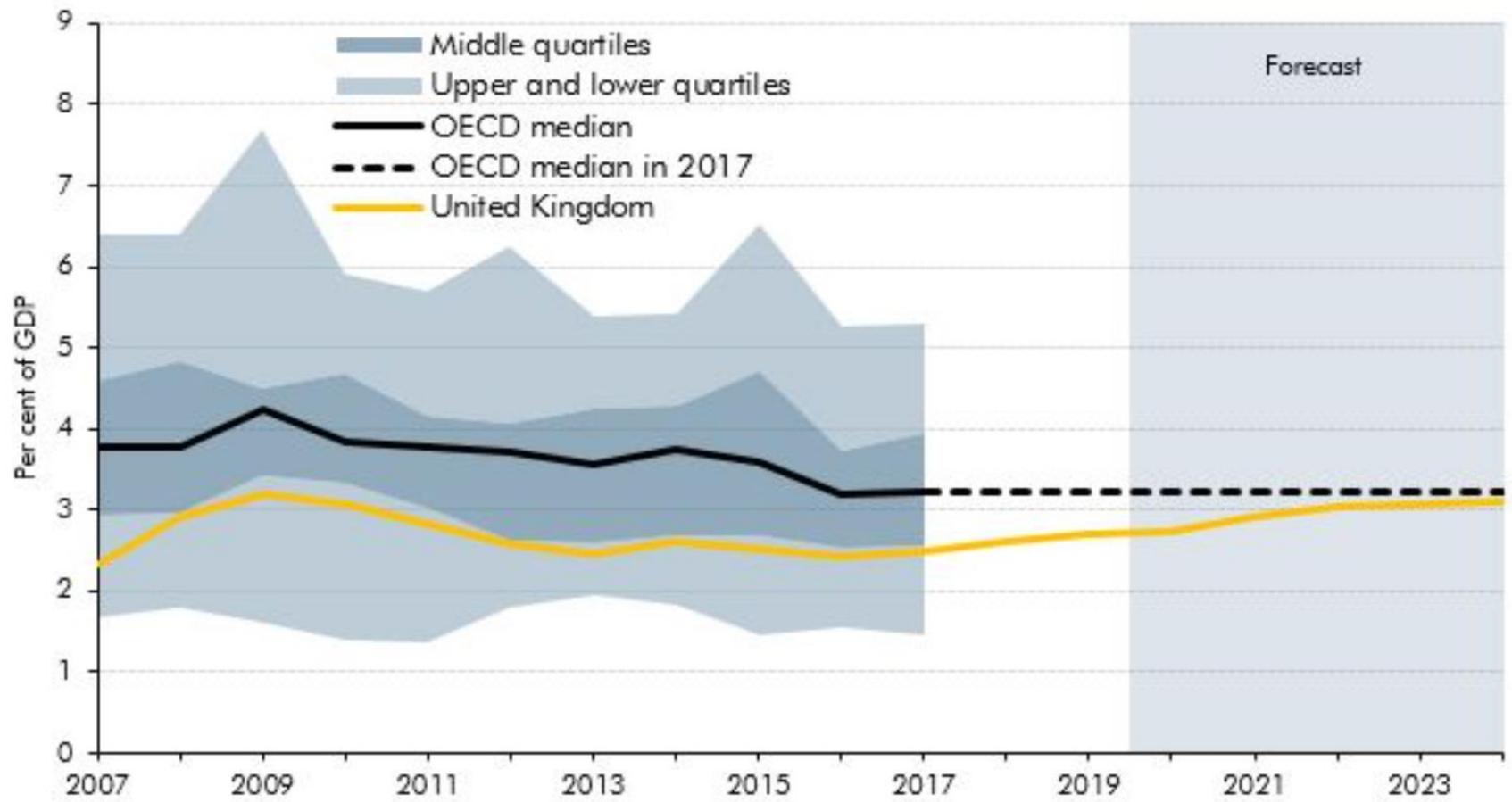
G7 nations GFCF as a percentage of GDP, chained volume measures, seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 1 2023



United Kingdom

The UK Tory government permitted a referendum on Brexit in June 2016. It passed. The clinching argument? Liberating the UK from oppressive regulations on business activities would spur private-sector innovation and investment. But the opposite occurred – UK investment remained below its peer nations. What was the problem? A productivity ‘paradox’.

Chart B: UK government investment on an internationally comparable basis relative to other OECD countries



Source: OBR

In the orthodox view, low UK investment can be traced to the lack of a solid ‘investment proposition’ for private capital.

IE, restraining govt spending restores competitiveness, but only if productivity growth is restored.

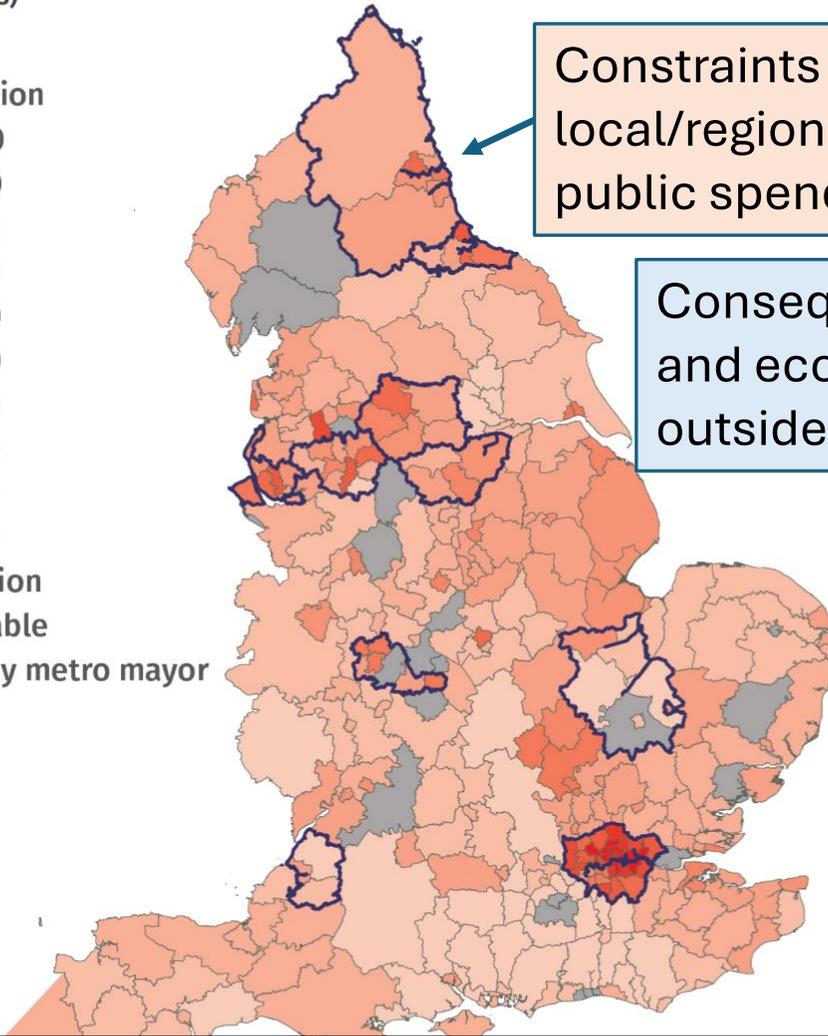
Demand shortfalls – including stagnant UK govt investment, as shown here – are irrelevant.

Any problems must be on the ‘supply side’ (capital, labour, technology)

FIGURE 4.2 LOCALLY CONTROLLED SPENDING POWER HAS DRASTICALLY FALLEN, ESPECIALLY IN URBAN AREAS, EVEN AREAS WHERE THERE ARE NEW DEVOLVED INSTITUTIONS

Change in total locally controlled spending power per head 2009/10 to 2022/23 across all tiers of local government in England, displayed at the district/unitary authority level (per person £ in 2023 prices)

- >£2,000 reduction
- £2,000 – £1,900
- £1,900 – £1,800
- £1,800 – £1,700
- £1,700 – £1,600
- £1,600 – £1,500
- £1,500 – £1,400
- £1,400 – £1,300
- £1,300 – £1,200
- £1,200 – £1,100
- £1,100 – £1,000
- <£1,000 reduction
- Data not available
- Area covered by metro mayor

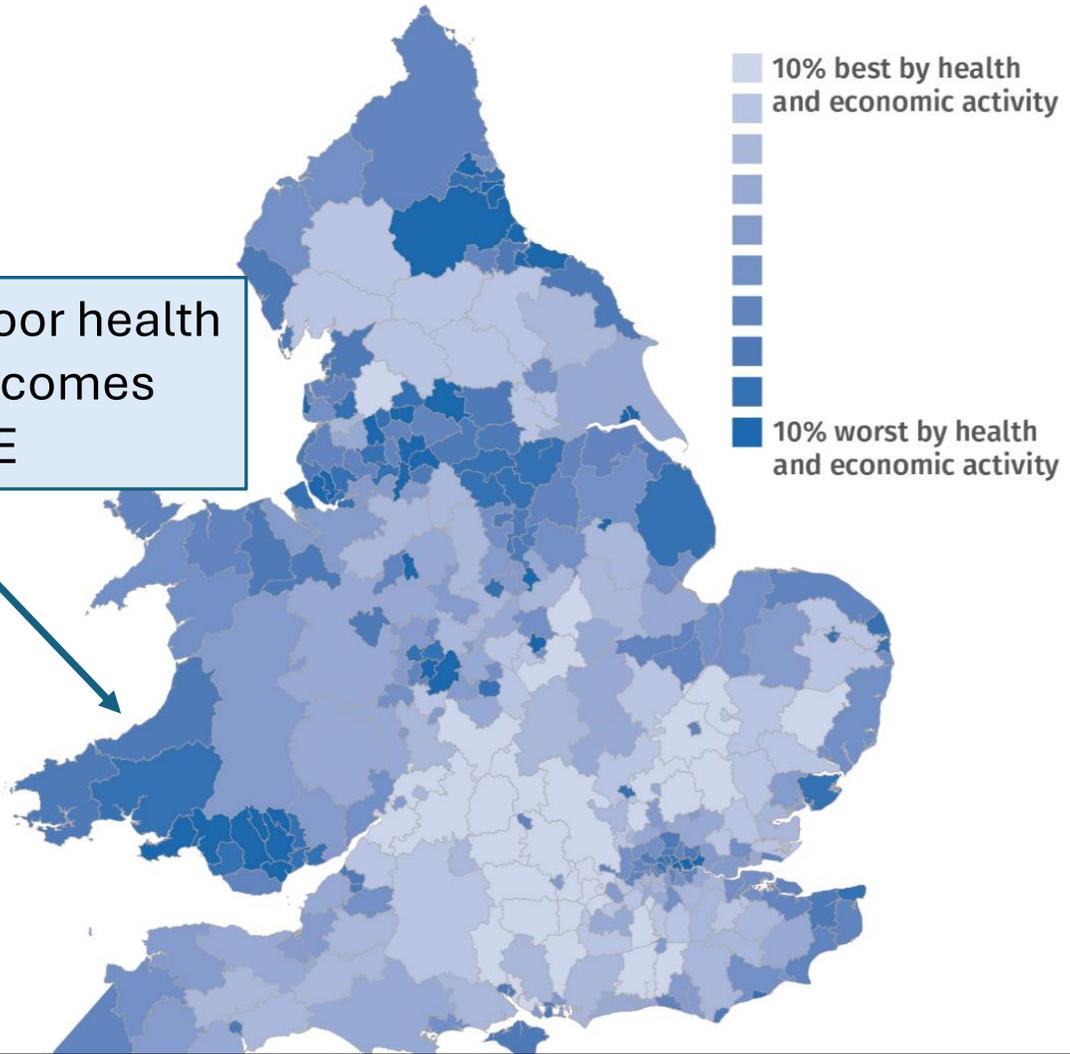


Constraints on local/regional public spending

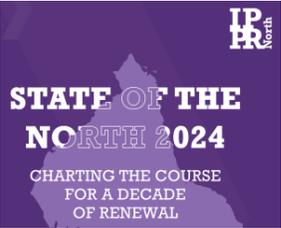
Consequences: poor health and economic outcomes outside London/SE

FIGURE 6.2: POOR HEALTH AND ECONOMIC OUTCOMES CLUSTER TOGETHER IN URBAN AREAS, THE NORTH, AND COASTAL AREAS

Decile of rank of healthy, prosperous places index – proportions of bad health and economic inactivity



- 10% best by health and economic activity
- 10% worst by health and economic activity



And another problem loomed: poor socio-economic outcomes, especially in Northern/peripheral areas. This joined the productivity paradox as a second policy challenge: reversing Northern decline by ‘levelling up’.

3. Needed: research initiatives responding to 2 problems (productivity and 'levelling up' the North) with independent causes

- The Conservative (Tory) UK government that took power in 2010 followed a neo-liberal formula of austerity macro policy: ie, aggregate demand doesn't matter, the welfare state should be reduced, and public-service privatized.
- Economic growth slowed. In the Tory government's view, this was caused by stifling European economic standards and a 'productivity slowdown' – *not* by the austerity macro policy it imposed on taking power.
- The Tory government responded to the growth and productivity slowdown with two policy responses aimed at enhancing the UK's competitiveness: leaving the single European Market (Brexit, initially unintended); and privatizing public services.
- To offset rising socio-economic stress, the Tory government promised to introduced 'devolution' – less centralized budgetary control – and also promised to fund 'levelling up' in 'the North.

3. ESRC initiatives – The Productivity Institute (TPI, 2020-24) and Local Policy Innovation Partnerships (2023-26)

- The UK's public research agency (ESRC) supported the government agenda. It funded The Productivity Institute (TPI) at the University of Manchester, for £30M in 2020.
 - TPI takes a 'top-down' approach to the productivity 'paradox', arguing that business underinvestment, failure to diffuse best business practices, and a 'lack of 'joined up policies, often at a devolved nation or regional level', are the main culprits. TPI provides UK regions with 'scorecards' for their guidance.
- To promote the 'levelling up' of lower-income regions that 'devolution' was supposed to deliver, ESRC funded four 'place-based' Local Policy Innovation Partnerships in January 2024 – one each in England, Wales, Scotland, and Northern Ireland.
 - Yorkshire and the Humber, part of the UK's depressed 'North', won one – the Yorkshire Policy Innovation Partnership (YPIP). YPIP and its sister project, Y-PERN (funded in 2022), are built as collaborations among the region's 12 universities.

Each region (here, Yorkshire) is given a ‘scorecard’ for its ‘performance’ – green, yellow, red.

Yorkshire and The Humber ITL3 Scorecards 2019

ITL Classification	itl	TLE	TLE21	TLE42	TLE12	TLE13	TLE22	TLE45	TLE32	TLE44	TLE41	TLE11	TLE31
	itlname	Yorkshire and The Humber	York	Leeds	East Riding of Yorkshire	North and North East Lincolnshire	North Yorkshire	Wakefield	Sheffield	Calderdale and Kirklees	Bradford	Kingston upon Hull, City of	Barnsley, Doncaster and Rotherham
Productivity	Taxonomy relative to the UK	Falling behind	Falling behind	Falling behind	Falling behind	Catching up	Falling behind	Falling behind	Catching up	Falling behind	Falling behind	Falling behind	Falling behind
	Taxonomy relative to ITL1		Losing ground	Losing ground	Losing ground	Steaming ahead	Steaming ahead	Catching up	Catching up	Catching up	Catching up	Falling behind	Catching up
	GVA per hour worked	£31.11	£34.59	£33.80	£32.66	£32.46	£31.96	£30.97	£30.84	£30.22	£28.85	£28.60	£27.58
Business performance & characteristics	Export Intensity	20.5%	16.2%	19.3%	15.6%	54.6%	9.8%	19.8%	23.4%	22.2%	22.0%	21.2%	14.0%
	New Businesses	11.9%	12.0%	11.8%	10.1%	11.7%	9.0%	12.0%	12.3%	12.0%	12.6%	13.6%	15.0%
Skills	Low Skilled*	20.0%	14.4%	17.1%	19.6%	24.7%	16.5%	22.7%	15.1%	21.5%	28.0%	22.4%	21.0%
	High Skilled	34.1%	48.9%	39.9%	36.0%	25.8%	37.7%	27.5%	47.1%	32.6%	26.3%	27.1%	25.6%
Health & wellbeing	Active	77.2%	81.3%	77.9%	81.8%	75.4%	80.7%	79.6%	77.4%	74.8%	71.1%	77.0%	76.8%
	Inactive due to illness*	23.2%	16.3%	18.8%	22.2%	35.2%	18.8%	33.2%	17.6%	23.0%	16.6%	29.3%	30.8%
	Working Age	61.4%	64.0%	65.0%	56.6%	59.7%	56.9%	59.9%	65.2%	61.6%	60.5%	65.1%	60.7%
Investment, infrastructure & connectivity	4G connectivity	80.2%	82.9%	87.6%	70.0%	63.3%	67.9%	77.4%	88.8%	83.0%	86.5%	98.4%	76.7%
	Fibre connectivity	17.2%	43.6%	27.2%	40.2%	1.0%	4.7%	12.6%	2.4%	7.0%	2.2%	97.0%	9.8%
	GFCF per job	£9,286	£10,281	£8,838	£8,223	£17,433	£11,519	£7,990	£10,771	£6,288	£7,195	£8,218	£7,917
	ICT per job	£359	£308	£331	£239	£591	£458	£358	£392	£232	£410	£440	£282
	Intangibles per job	£1,505	£1,735	£2,060	£817	£1,059	£1,414	£1,309	£1,680	£1,266	£1,819	£1,404	£1,161

12 June 2023

TPI tells every region what it must do to improve its productivity 'score' ... EG:

Boosting Productivity in The Yorkshire and The Humber and North East of England: Challenges and Opportunities

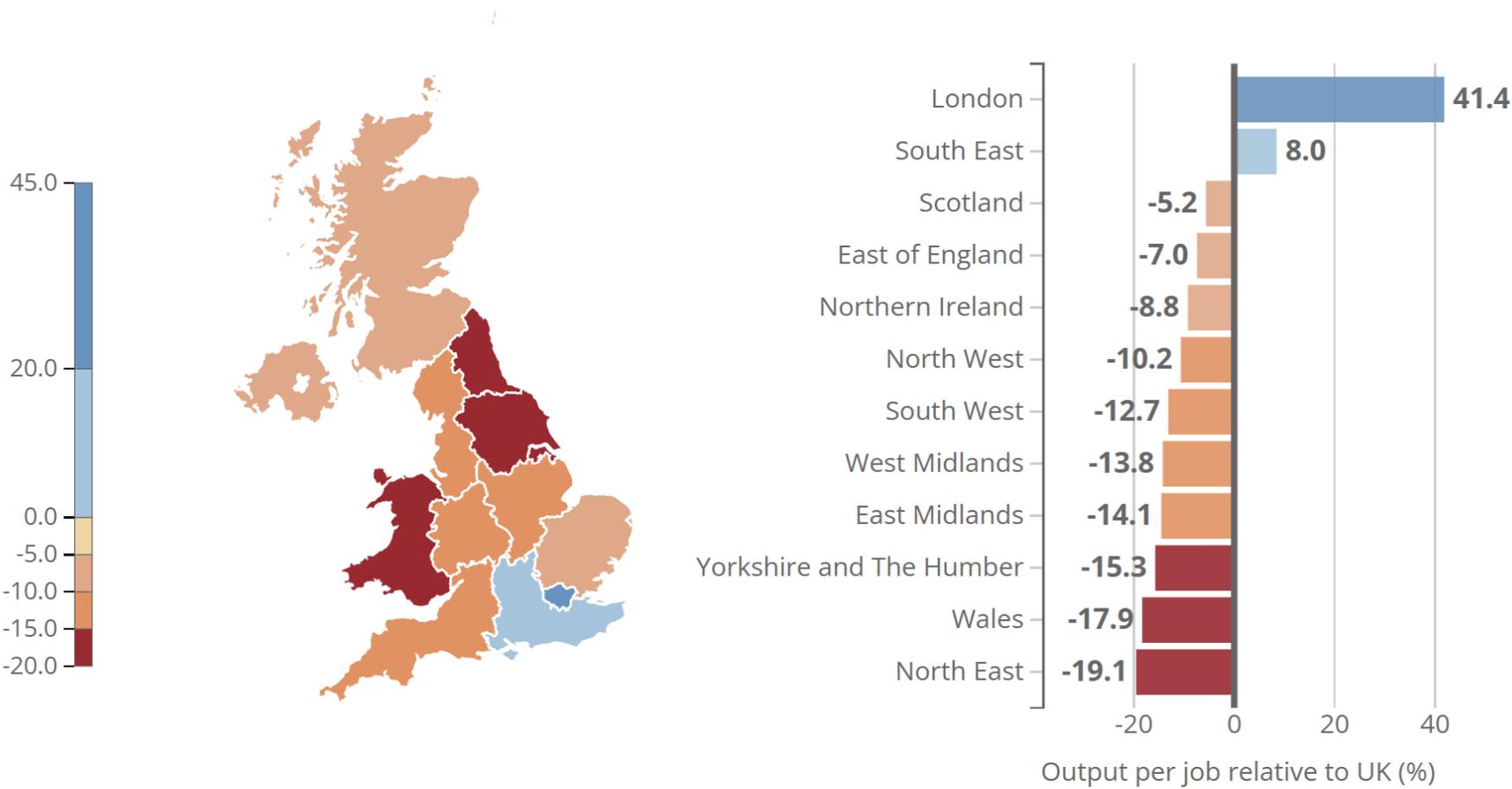
Several factors contribute to the productivity challenges faced by the region. The prevalence of low-productivity firms, under-investment and inadequate regional connectivity have hindered substantial productivity improvements since 2008.

Additionally, the North East and Yorkshire and the Humber were among the least resilient regions to the 2008 global financial crisis and have been significantly affected by Brexit, given their reliance on EU markets for trade.

In Yorkshire and The Humber, the focus is on leveraging the region's strengths in sectors such as healthcare and innovation, manufacturing, financial and professional services, and digital technologies. The region has established itself as a major centre for financial and professional services outside of London and earns billions from advanced manufacturing and R&D activities. However, there is a need for increased investment, both public and private, in research and development to unlock further growth potential.

Figure 2: Productivity measured as output per job in London was over 40% higher than the UK average

Output per job by International Territorial Level 1 region relative to the UK average, 2021

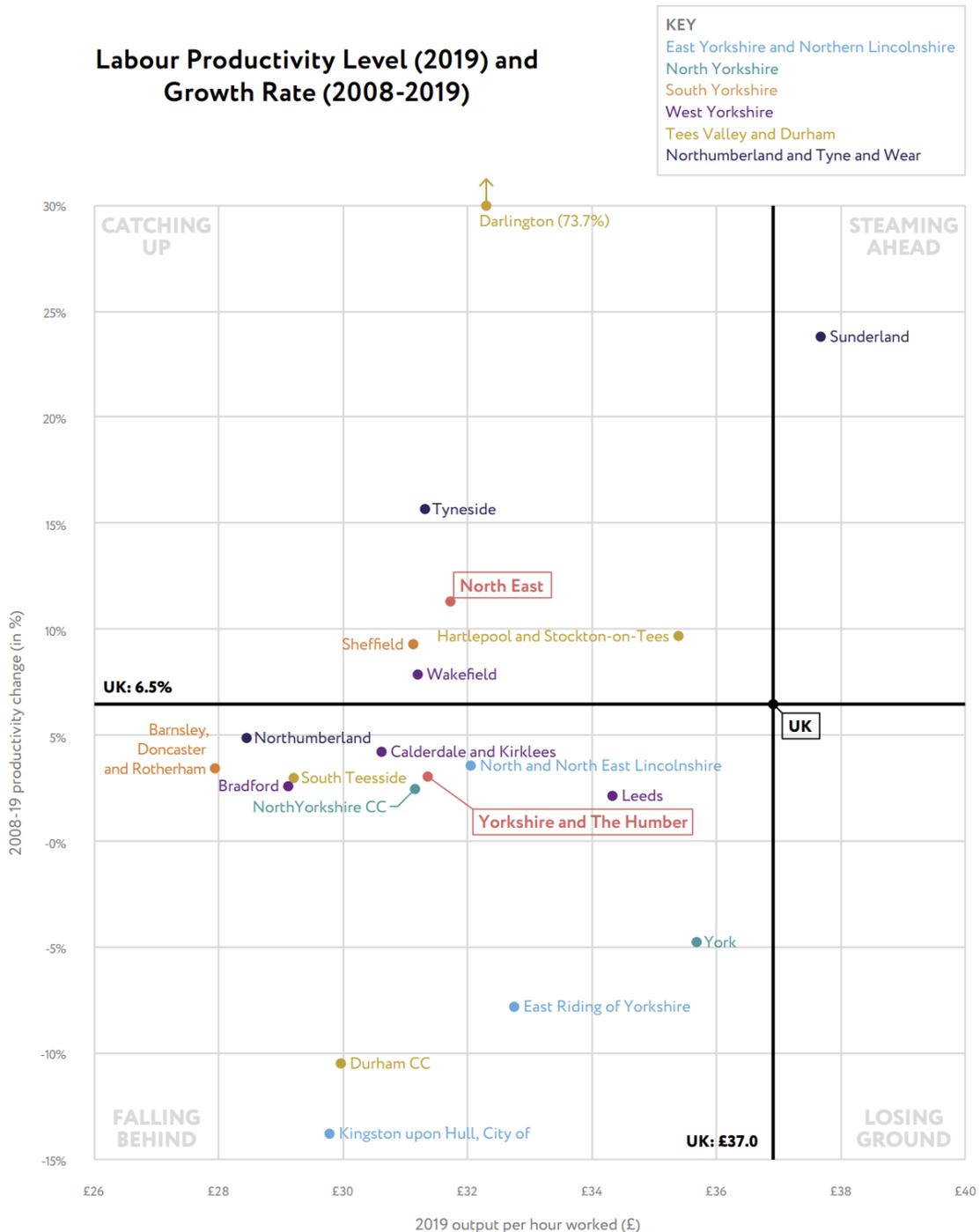


Source: From the Office for National Statistics

This depiction, by the UK government’s ONS, suggests the basis of the productivity problem is that regions outside of London/SE are poor in labour, management, entrepreneurship, or innovation – something is broken on these regions’ supply side.

But the numerator in productivity (Y_i / N_i) equals firms’ revenues – what they have sold. And this numerator shrinks when demand is constrained.

Labour Productivity Level (2019) and Growth Rate (2008-2019)

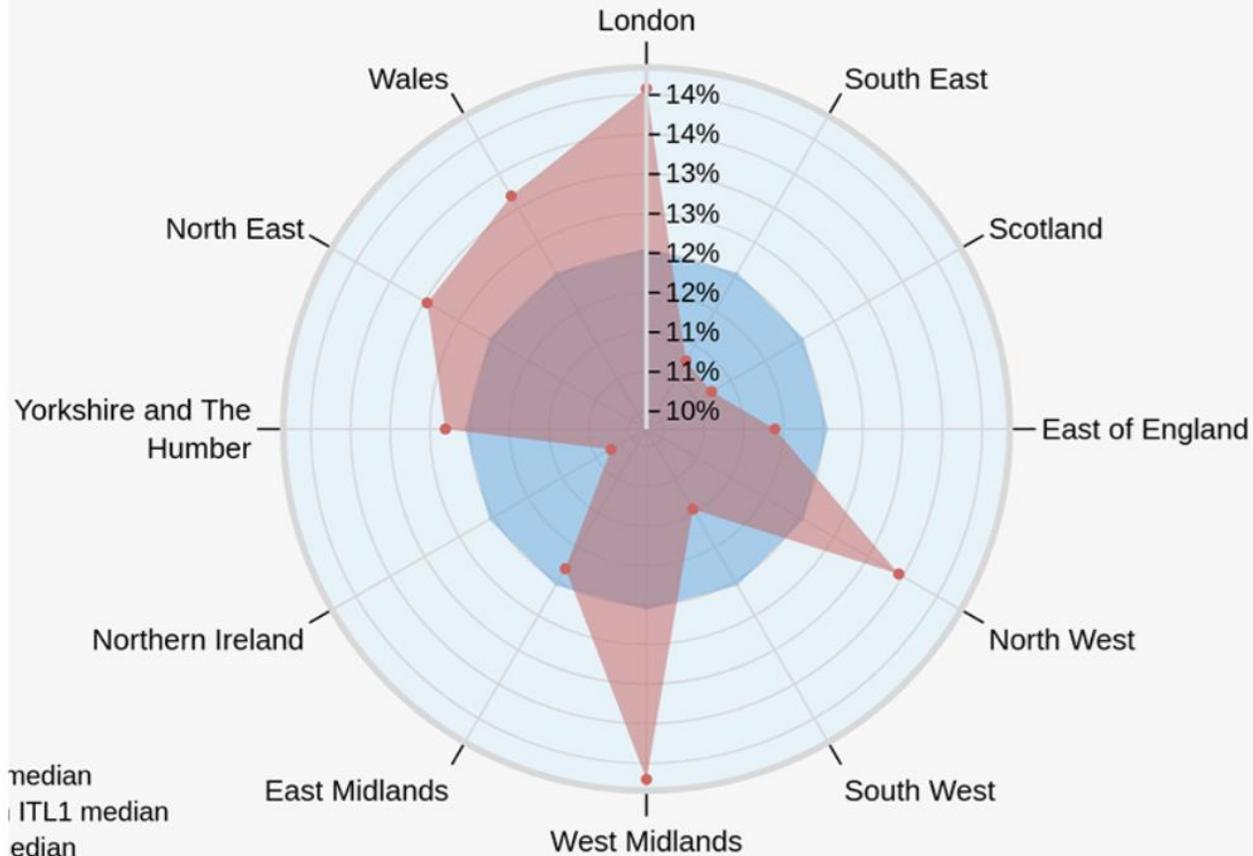


TPI analysis is based both on orthodox macro theory: exogenous shocks – especially by government interference in market processes – push economies off optimal growth paths.

It also relies on agglomeration theory, championed by the New Economic Geography.. The idea is that different urban centres can maximize innovation and growth by taking advantage of their unique individual specialties and circumstances (good location, good cultural life, proximity to cheap energy, etc).

So different city centres – shown here are Yorkshire and the NE – can prosper by making investment offers to businesses highlighting their individual – unique – strengths.

New Businesses spider diagram for 2021
regions sorted clockwise by 2021 productivity



median
 ITL1 median
 median

4G connectivity | Fibre connectivity | GFCF per job | ICT per job | Intangibles per job

But one thing we can notice here in TPI's own graphic about new business creation is that Yorkshire and the North East have high rates of business creation.

Why should this be, if these peripheral (Northern) places are so broken on the supply side?

What is being missed in TPI's story?

Our answer: the premises of orthodox macro theory and of New Economic Geography are flawed as guides to understanding regional inequality.

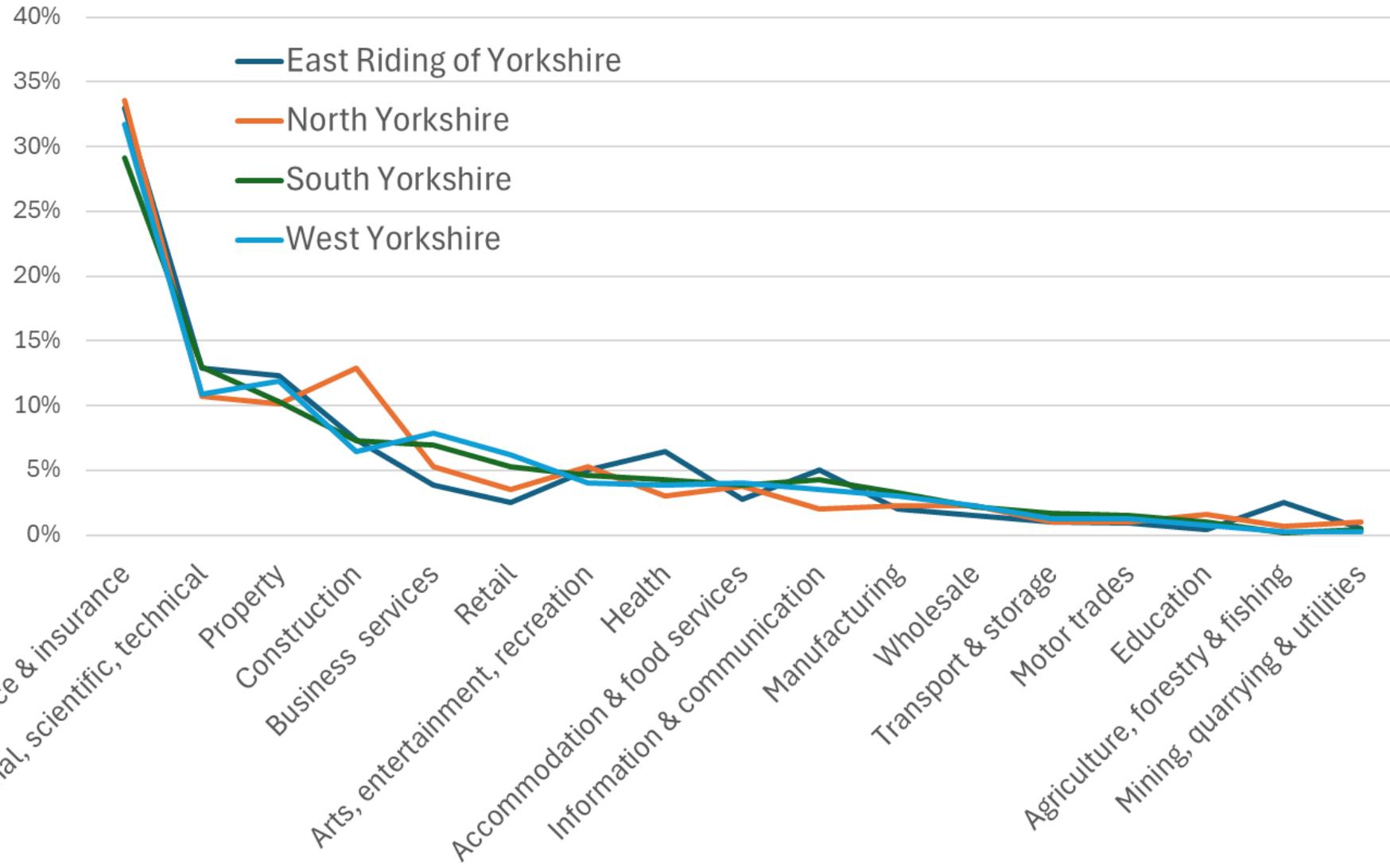
4. Addressing Polycrisis: The Yorkshire Policy Innovation Partnership's 'community-led' – bottom-up – approach

- YPIP's key design feature is to bring university-based researchers into co-design and co-creation relationships with communities and public authorities.
- YPIP's three areas of substantive focus are inclusive growth, sustainability, and data informatics. In each focus area, we are prioritizing the participation of members of economically-marginalized communities (on the basis of race/ethnicity, gender, class, immigration status, and spatial isolation).
- The idea is not just to listen to what low-income/marginalized people say, but to work with representatives of marginalized communities.
- There is a spatial dimension here, since Yorkshire is segregated by income/wealth levels and by race/ethnicity, and it includes many distinct types of community (ex-mining towns, 'market towns', and so on). Whereas TPI focuses on agglomerated city centres, we take a holistic spatial approach.

YPIP's analytical building blocks: A Keynesian 'system of systems' understanding of a bordered region within an open economy

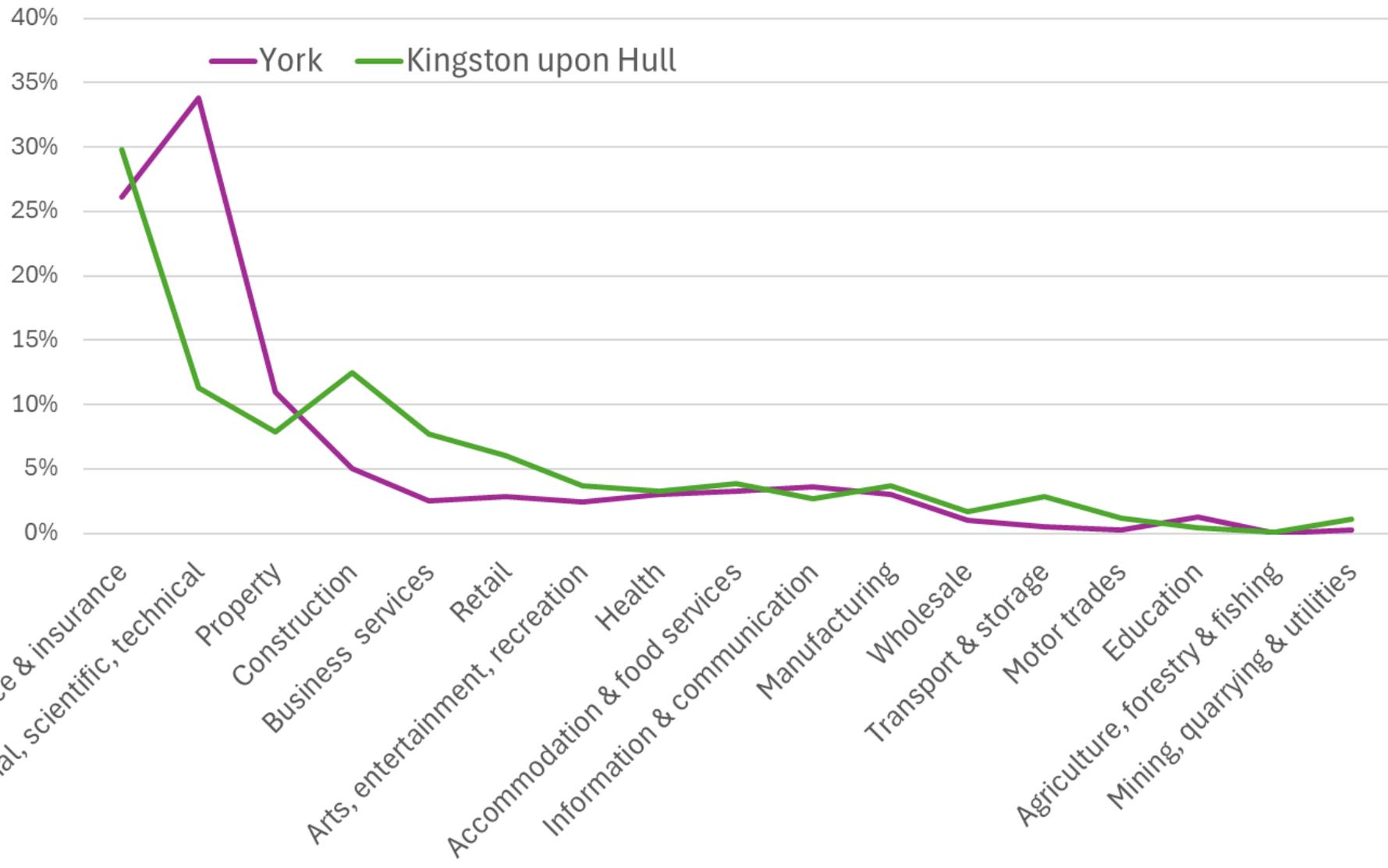
- We envision the economy as a 'system of systems.' We reject the depiction of a regional economy as a sectionalized aggregate production function (per TPI) that connects urban hubs of agglomeration-driven innovation (below).
- Instead any region's economy includes a system of provisioning (Fine et al) - market and non-market institutions (food, housing, childcare, health, education, etc.) that meet human needs (or fail to).
- Lower-income / low productivity regions have lower levels of expenditure and income, and low levels of investment than others.
 - This necessitates net inflows of public funds to provide households with needed services and provisioning. UK data show this (next slide).
 - It also necessitates a net inflow of capital from other regions and/or from abroad (FDI or extra-regional investment inflows).
- The level of overall demand drives employment, output, and even business dynamics. The pattern of new business registrations shows this clearly (below).

Percentage of new business registrations by Yorkshire sub-region,
2018-2023

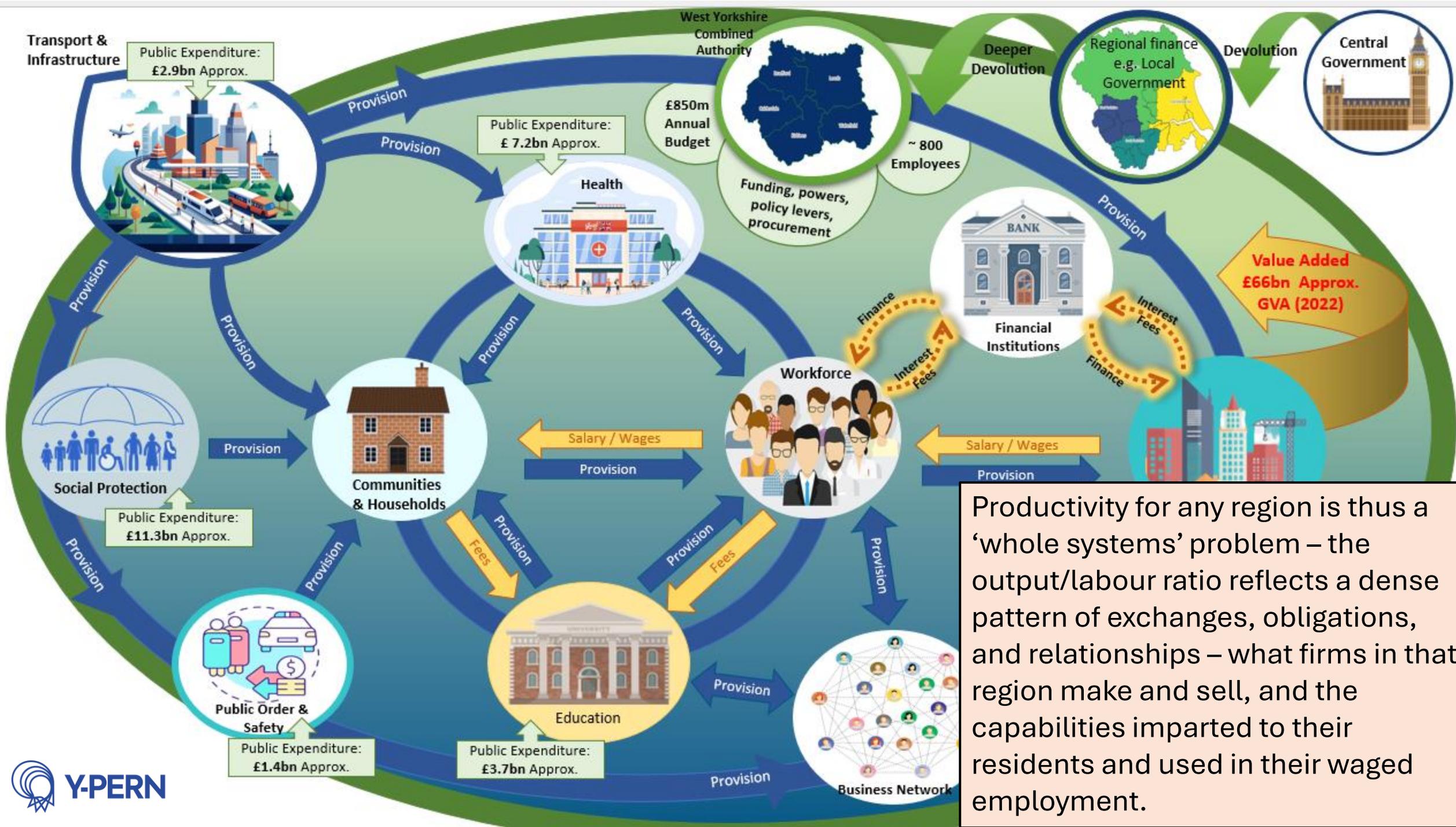


What we see here is that across the four subregions, there is a very similar – almost identical – pattern of 2018-23 business registrations across industrial categories.

Percentage of new business registrations for two Yorkshire cities, 2018-2023

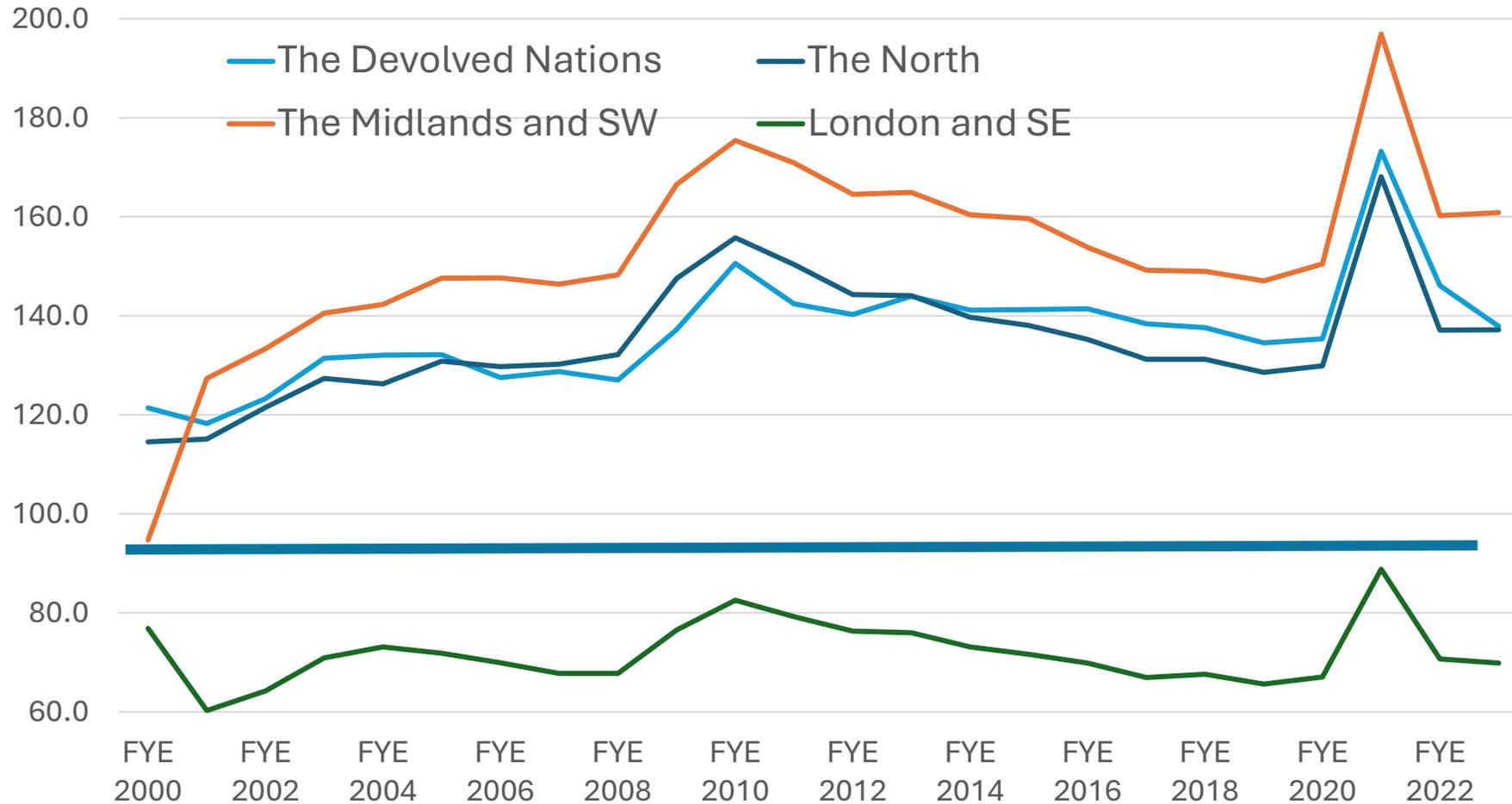


This pattern of common industrial frequencies in new business registrations, 2018-2023, is reproduced even when we choose two quite different urban centres within Yorkshire and the Humber – York and Hull.



Productivity for any region is thus a ‘whole systems’ problem – the output/labour ratio reflects a dense pattern of exchanges, obligations, and relationships – what firms in that region make and sell, and the capabilities imparted to their residents and used in their waged employment.

Expenditures as % of Revenues received by UK mega-regions, 2000-2023

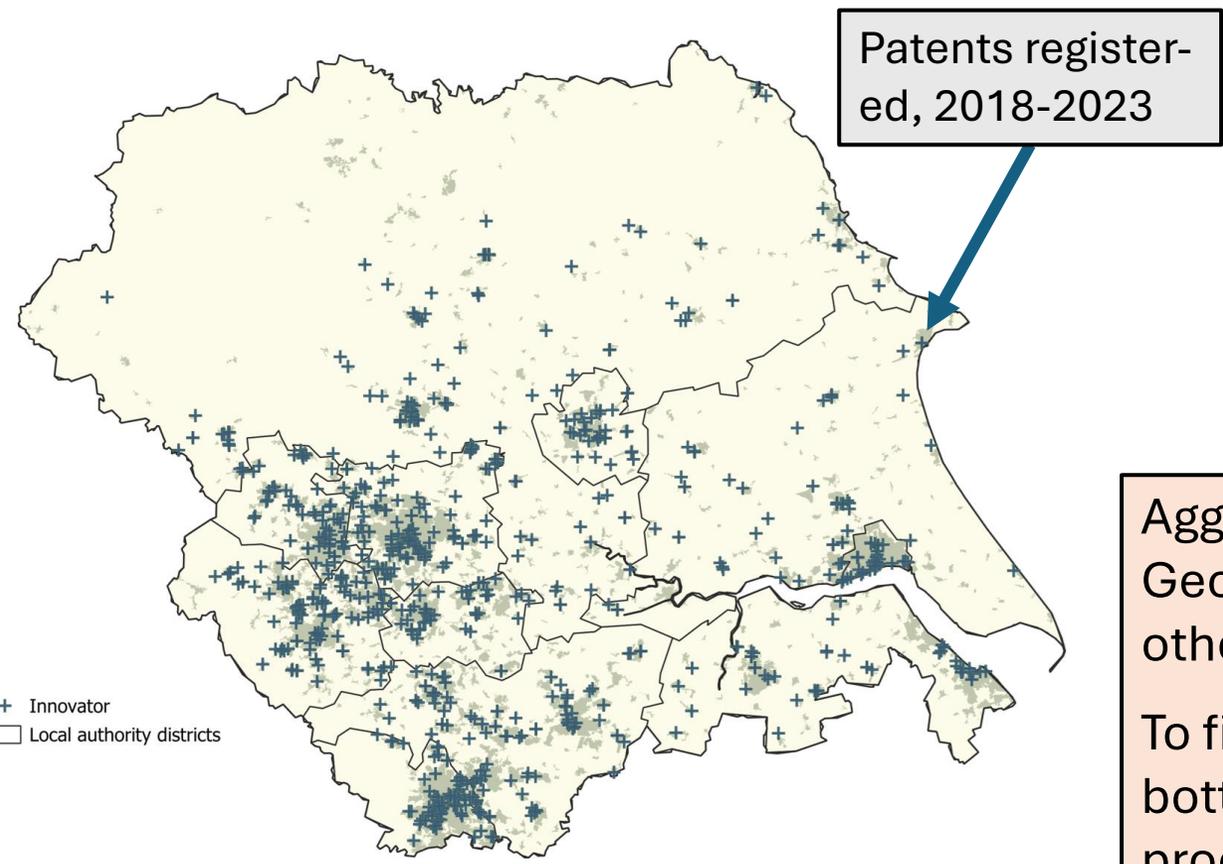
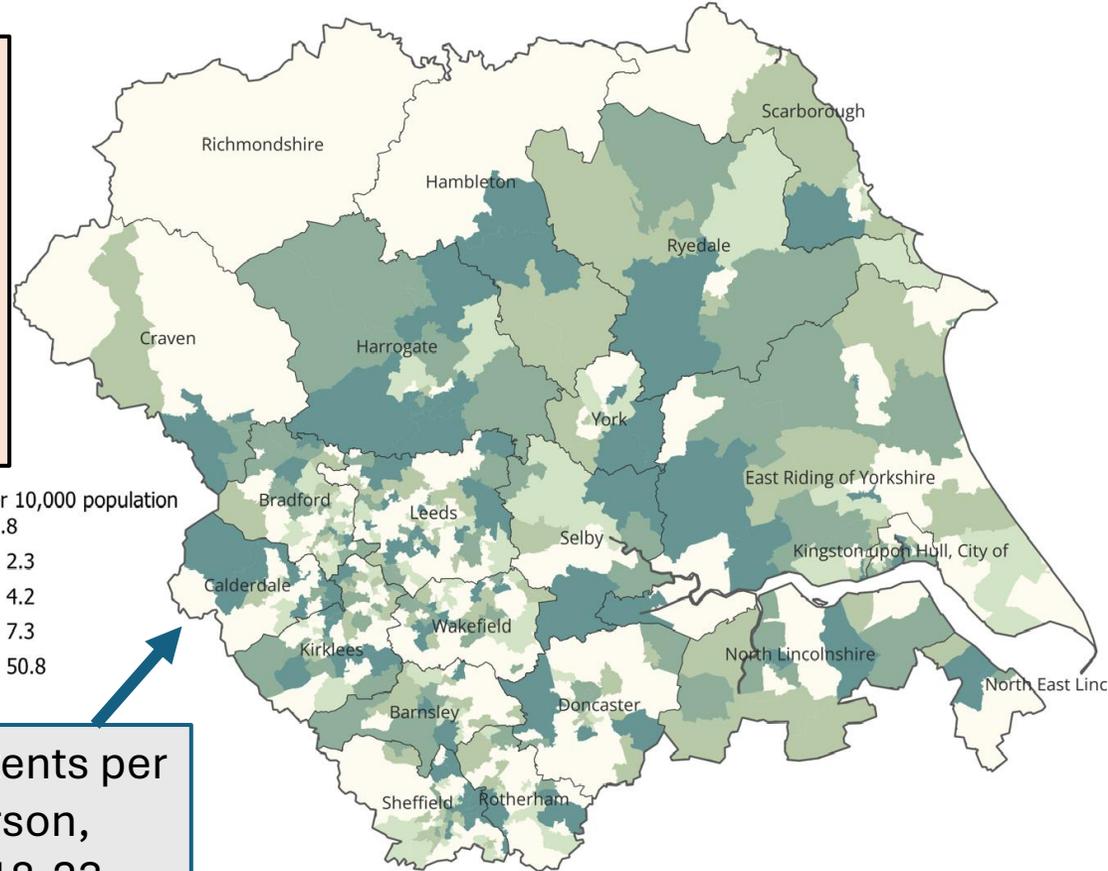


Transfers of net public or private resources from upper-income to lower-income regions are needed to avoid overall stagnation in any spatial area. Varoufakis refers to this as ‘surplus transfer mechanisms.’

This sort of ‘surplus transfer’ is needed to avoid stagnation in the periphery of any spatial area with significant internal income and wealth inequality.

Analysis based on centralized data-capture suggests that top-down solutions can be mandated - bottom-up information is unnecessary.

But maps of patent filings for Yorkshire in 2018-23 (above) and patents per population in 2021 show that patents are not correlated with urban conglomerations in this region.



Patents per person, 2018-23

Agglomeration theory – the heart of the ‘New Economic Geography’ – doesn’t explain this pattern at all. There are other factors driving innovation in this region.

To find out what these factors are, we need localized – bottom-up – information. We need to investigate localized processes at a local scale.

5. Implications: A design problem for the UK, and a re-design problem for the EMU and European Union?

- What is the problem? We've argued that bottom-up information deficits and mistaken macro models based on aggregate supply-side factors restrict economic policymaking to a top-down logic that invisibilizes the economy's social embedding.
- The productivity debate ignores the economy's social embedding: the 'foundational activities' that support local thriving. That debate denies that demand constraints operating through unequal regional economic channels are root causes of the UK's peripheral regions being primarily responsible for the UK's 'productivity paradox'.
- In the top-down approach, you don't need to know the plans or ideas of people clustered in lived communities: you already know how things work.
- In a bottom-up approach, you have to start by investigating the root causes of inequality, including: the state of 'surplus transfer mechanisms'; access to education, training, and finance; and the adequacy of social/physical infrastructure

5. Implications: A design problem for the UK, and a re-design problem for the EMU and European Union?

- In the UK case, Whitehall's centralized control of budget policy and the importance of the City of London have blocked serious discussion of adopting a bottom-up approach – regions-first, much less community-led.
 - So approaching the crisis of economic competitiveness in a top-down manner is not a surprise. The failure to fund the crisis of human well-being and sustainability at the regional level is not a surprise for a Tory government. For a Labour government?
- In the European case, the Growth and Stability Pact and structure of the European Central Bank baked centralized control into EU policies and procedures.
- Minsky would have said, 'It takes a plan to beat a plan.' Both the UK and the EU have design problems to solve.
- So what's the plan?

The UK's design problem: structural shifts in power and decision-making at the macroeconomic, regional, local, and community levels?

National level:

- 'Surplus-transfer mechanisms' (equalization funds) to even out provisioning
- But there is flight risk – wealthy people and firms who are asked to spatially redistribute some of their investment spending and net public-sector resources may seek to flee to offshore tax havens.

Regional level:

- Responsibility for designing and distributing provisioning infrastructure has to be shared with spatially subordinate units.
- Some authorities' efficiency/effectiveness will exceed others, so provisioning can be uneven across space; regional equalizing mechanisms also needed

Local level:

- Participation/voice vehicles that reinforce and enable voice and are tolerant and open to those from diverse cultures, ethnicities, socio-economic status.

Europe's design problem: structural shifts in power and decision-making at EU, national, regional, local, and community levels?

European Community level:

- 'Surplus-transfer mechanisms' between richer and poorer countries (cross-border investment or Social-Europe support) are needed at the European level.

National level:

- 'Surplus-transfer mechanisms' (equalization funds) to even out provisioning
- Flight risk exists for Europe's nations too – flight to offshore tax havens.

Regional level:

- Responsibility for designing and distributing provisioning infrastructure has to be shared with spatially subordinate units.
- Some authorities' efficiency/effectiveness will exceed others, so provisioning can be uneven across space; regional equalizing mechanisms are also needed

Local level:

- Participation/voice vehicles reinforcing and enabling voice are more important than in the UK – there are *multiple* local levels, across national boundaries.