Must the ex-industrial regions fail?

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Central government is part of the problem not the solution for the regions, so it is time for new regional and local guerrilla strategies.

The financial crisis has thrown many inequalities into sharp relief, and one of the issues it has highlighted is the worsening regional problem in the UK and Europe, which is now increasingly centred on the relative economic decline of the ex-industrial regions, such as those in the North and West of Britain.

Here we explore this problem in three ways. First, we look at the nature and extent of the economic problems in Europe's new internal periphery of ex-industrial regions, mainly using British empirical data. Second, we show how political disconnects complicate the search for national policy solutions - and here British problems are set within the larger European context of increasing intra-regional conflict. Third, we argue the case for a new policy imaginary for economic development within the regions, based on guerrilla local development and everyday local economic activity; in our view this new approach could be deployed more extensively where devolved government exists, or where it does not could be mobilised in support of a defensive regional economic nationalism.

Economic inequalities: the twilight of the ex-industrial regions

In Western Europe ideas of underdevelopment and low income are still dominated by images of laggard Southern European agricultural regions, such as the Italian Mezzogiorno. But over the last three decades the core of the problem has shifted towards the ex-industrial twilight regions in the North and West of Europe. Here we have a new kind of falling behind - in regions like Wales or the West Midlands in the UK, Walloon in Belgium, and the Pas de Calais in France; and, indeed, we see something similar on a sub-regional basis within districts, such as Enfield in North London, whose problems in many ways resemble those of a Northern industrial town.

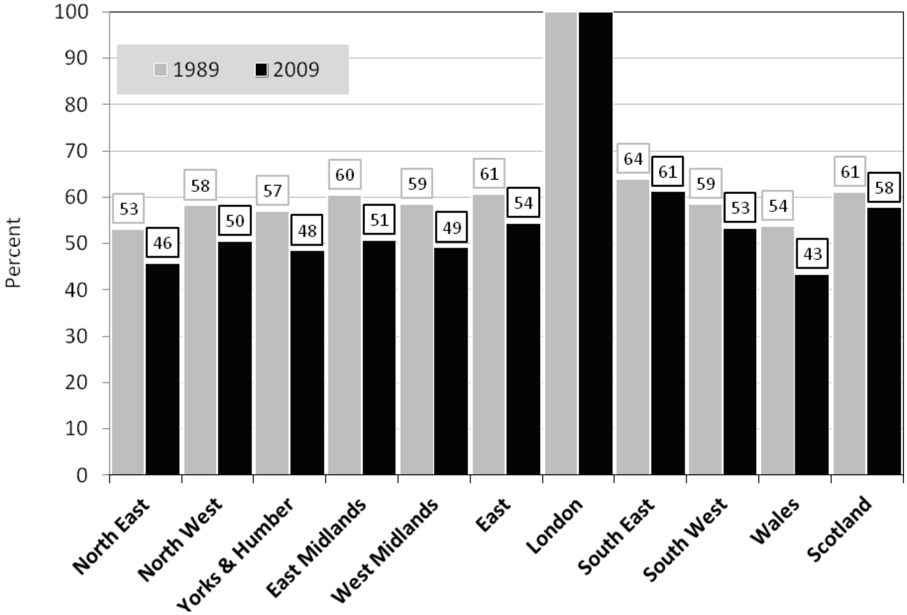
As these ex-industrial regions and districts have fallen into decline over the past thirty years, the gap between their income and that of the central economic regions has increased; and the gap is now often larger than that between the traditionally laggard agricultural regions and the centre. Consequently, on some measures, many northern European long-industrialised countries such as the UK now have greater internal regional inequalities within the nation than exist in southern half-industrialised countries such as Italy. In Italy, the poorest regions like Calabria and Campania have half the income of the top regions, while UK regions like Wales or South Yorkshire do relatively worse in comparison with London and the South East.

If we consider the whole of the post 1979 period in Britain, the widening income and output disparities between the ex-industrial regions and London are quite frightening. Figure 1 overleaf summarises the recent historical evidence, using the standard gross value added (GVA) measure.[1] It shows that the three weakest regions (Yorkshire & Humberside, West Midlands and Wales) all slipped ten points relative to London on the GVA measure in the twenty years up to 2009. All three of these declining regions now have output per capita that is less than half that of London and, if we extrapolate past trends, their per-capita output by 2029 could be around one-third that of the London level.

The underlying story is the same in all these ex-industrial regions. And it is the age-old capitalist story of economic activity moving on to new centres, leaving behind a population with unwanted skills and no jobs (and within Europe this includes movement to former West Germany as much as to low-wage Asia). The industrial employment base is gone in Swansea or Walsall, and nothing has taken its place, especially for male manual workers formerly employed in manufacturing and heavy industry. Their disaster is the decline in the number of manufacturing workers in the UK from 7 million in the 1970s to just over two million today.

And yet, as Tolstoy famously said, every unhappy family is unhappy in its

Figure 1: Regional GVA per head compared to London in 1989 and 2009 (expressed as a percentage share of London's GVA per head)



Source: ONS.

own way, and the British ex-industrial regions have their own particular story, one that is bound up in the thirty-year enterprise experiment under Thatcher and Blair. Successive governments after 1979 have sought to break with the past and revitalise the economy by promoting enterprise through structural-reform policies based on low taxes, deregulation, privatisation and flexible labour markets. Although the Westminster political classes can never admit as much, their enterprise policies in fact produced a national success that was unsustainable, and which ultimately collapsed with disastrous outcomes after 2008, through the unintended consequences of credit deregulation.

The rhetorical promise of enterprise under Margaret Thatcher was real jobs in a new economy. But in the event (and accidentally), through deregulating finance Thatcher and Blair did more for the working rich in London and (middle-class) home owners with equity than they did for disemployed steel or car workers. The enclave offshore financial centre on the Thames did nothing for domestic employment in financial services - which never exceeded one million in the fifteen years after 1992 even though sectoral output increased many times. Meanwhile, final consumption demand was unproductively and unsustainably propped up by housing equity withdrawal, which under both Thatcher and Blair was larger than nominal GDP growth.

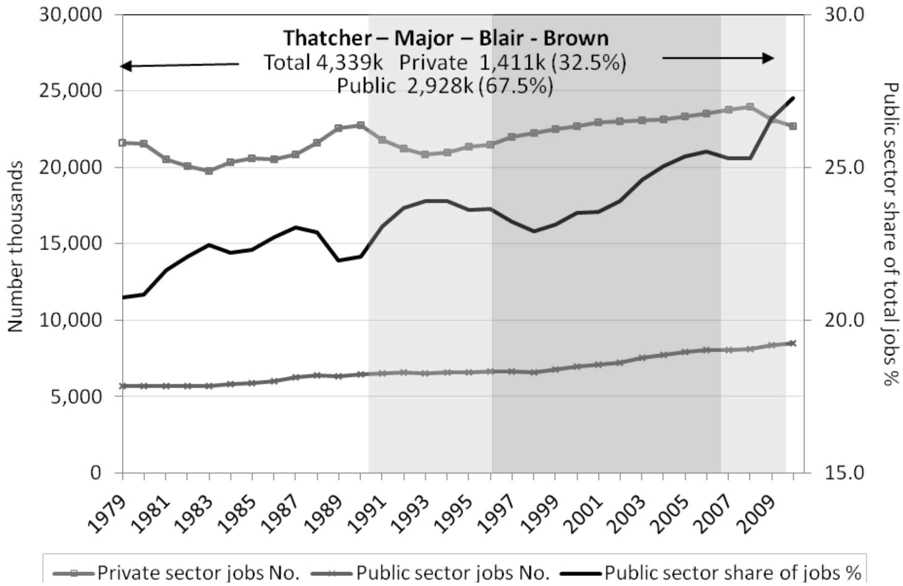
The two basic pre-1979 trends were not in any way changed by the enterprise experiment. First, there was a continuing unsteady retreat from manufacturing as the big factories closed or became foreign branch plants, so that by 2008 Britain had fewer than 2000 factories employing more than 200 workers. The result was not flexible specialisation - as envisaged by *Marxism Today* - but the expansion of local tertiary education and more care homes. This was because the second basic trend, the unsustainable expansion of state-funded employment, also continued: the British (like their peers in other high-income countries) wanted health and education output, which in the UK was state-provided or at least state-funded.

Indeed the two trends intersected in what could be characterised as an undisclosed and unintended regional policy, whereby the decline of manufacturing employment from the 1980s was covered by the public sector, which filled in for an anaemic private sector that never did create extra jobs. As the West and North of the UK went ex-industrial, public spending on health, education and welfare became the undisclosed but effective regional policy, as extra jobs were publicly funded. Meanwhile those who did not have the opportunity or qualifications to work were often quietly parked up on invalidity benefit, so that twenty per cent or more of the working-age population ended up on benefits in the ex-industrial regions.

In the mid-2000s, Chancellor Brown was vainly triumphalist about the British economy as a growth and job creation machine. But, right across the UK, the growth was being sustained by housing equity withdrawal, while most of the extra jobs under New Labour were public sector or publicly funded in the growing para-state sector of nursery schools, care homes and such like, as private management and capital moved in to take advantage of state funds (as figure 2 shows).

These figures on relative numbers of employees in the public and private sector were also distorted by utility privatisation, which, through a kind of book-keeping transfer, served to increase private sector employment. Moreover, official statistical classifications have only recently begun to consider the para-state complication of publicly-funded private employment, and thus it is difficult to make explicit the extent to which employment growth has been underwritten by the state. Figure 2

Figure 2: UK private sector and public sector employees 1979-2010
(Public sector = education, public administration and health employees)



Source: ONS

clarifies long-term trends in employment by taking total employment in education, public administration and health as a proxy for public sector employment. On this basis, two-thirds of the extra jobs from 1979 to 2010 were publicly funded.

CRESC research into regional trends in the New Labour period brings out a sharp contrast between one region (London) and all the rest.[2] There was no autonomous private sector job creation in decaying regions like the North East or West Midlands during this period; and precious little full-time job growth anywhere outside London. Between 1997 and 2010, London on its own accounted for 43 per cent of all extra full-time jobs created in the UK, and London is now the only region of the UK capable of creating new full-time private jobs. And, again frighteningly, there is no movement of surplus population from the periphery to the centre.

In historical terms, this is the most important difference between the 1930s and the 2010s. Britain has long been a country of internal economic migration - as for example when one generation of agricultural workers moved onto the coal fields before 1914, or their children moved on to the factories of Slough and Cowley in the 1930s. In the interwar period there was a mass exodus from the depressed North and West, so that, for example, more than 400,000 left South Wales, and the Rhondda lost more than one third of its population.

But this has not happened more recently: London now imports labour from the EU periphery and, strikingly, net migration from the rest of the UK is negative. In an important article in 2007, a team of LSE researchers calculated that between 1997 and 2006, 85 per cent of the extra 400,000 London jobs created were taken up by people born outside the UK.[3] And that's the final piece which fits in to create the nearly insoluble new regional puzzle of the 2010s. We now have an on-going financial crisis which completely undermines growth, but the surplus population is not moving to the centre, and there is increasing political tension about the transfer payments required to keep the periphery going.

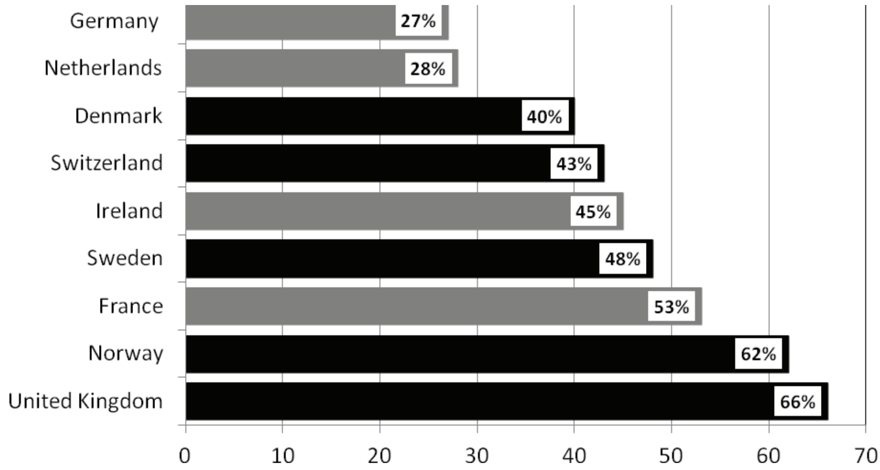
Political conflicts: intra-regional quarrels and British exceptionalism

Each of the mainland countries of Western Europe has variants on the new regional problem, which is increasingly but not exclusively focused on the failed ex-industrial regions. And the general result of this across Europe has been new forms of intra-regional political conflict within federal nation states. In this section we look at the new pattern of European regional quarrels, and then consider how and why the UK is an exception to this - mainly because it combines a formally centralised political apparatus with a large informal role for London as a city state.

But first a general point about democratic disconnects, which is relevant in all West European countries, inasmuch as there has everywhere been a collapse of old-style political mobilisation through the mass party. Figure 3 below presents some basic data on the decline of party membership in European countries, which ranges from a one-third decline in Benelux to a two-thirds decline in the UK. Right across Western Europe, the political parties, civil society and technocrats are disconnected in ways that undermine the post-1945 governing formula - one of interest alignment brokered by mass parties that turned expert management technologies into programmes with parliamentary majorities.

The result of this decline is a permanent deficit of democracy; national politics becomes dominated by small (usually metropolitan) cliques whose parties are supporters' clubs, rather like New Labour in the UK. This creates the space for the

Figure 3: Percentage decline in party membership size in selected European countries 1980-2009



Source: van Biezen *et al* 2009. Note grey-shaded bars refer to Eurozone countries.

emergence of a new form of 'can pay, won't pay' politics within stressed federal states like Italy or Belgium. In both countries, relatively wealthy regions - 'Padania' in Northern Italy, and Flanders in Belgium - have seen the rise of insurgent populist parties (Lega Nord and Vlaams Belang respectively) that confusingly mix regional identity politics with electoral opportunism. But their economic agenda is consistently against taxes for regional redistribution.

As austerity bites, internal distributive conflicts are now spilling over into mainstream politics in other federal countries like Spain, where 17 regional governments manage schools and hospitals and account for more than half of public expenditure. In January 2012, the centre-right Spanish government made an 8 billion euro advance so that the regional governments could carry on paying their bills; by April, prime minister Rajoy was threatening to seize budgetary control of recalcitrant regions, which were now being told to halve their deficits.

There are echoes of this tension even in Germany, where the regionally based centre-right CSU party in affluent Bavaria is increasingly restive about internal transfers. German politics is about coalitions and consensus, and this has encouraged external scapegoating of the Greeks. And until recently it has also discouraged any questioning of internal distribution to the formerly communist east. But that issue is now being raised noisily by the leader of the CSU, who challenges the legality of internal 'solidarity transfers', which supposedly cost Bavaria 7 billion euros a year.

Britain is out of step with this noisy populism of the privileged regions, and this is for several reasons, both political and economic. We do not (yet) have an ambitious Tory populist - Boris Johnson perhaps? - making speeches about feckless Geordies. This is partly because our own populist right (UKIP and the Tory back benches) is fixated on defeating external enemies by repatriating powers from Brussels. But it is also because redistribution between the regions is already being reversed in Britain. We already have what could be seen as a new kind of anti-regional policy which undoes what New Labour did before 2008, given that all the mainstream political parties at Westminster currently agree on public expenditure cuts, and these are already stripping out the public employment and welfare benefits that helped to shore up the ex-industrial areas in the years of Labour government.

The macro story of the financial crisis so far in the UK is that ill-judged attempts to keep the banks going by socialising losses have both wrecked our public finances and helped to enforce orthodox fiscal austerity policies, which may or may not impress the bond markets but will certainly undermine economic growth. The £44 billion of expenditure cuts planned by the outgoing Labour government was increased to £81 billion under the Coalition. And as the cuts begin to produce more than 700,000 public-sector job losses, and to reduce eligibility for several categories of welfare, the relative position of the ex-industrial regions will deteriorate sharply.

The semi-permanent legacy of the enterprise experiment has been the evisceration of regional policy. In the imaginary of the structural reformers, the only legitimate form of intervention for the redress of regional inequalities is the provision of infrastructure and training for laggard regions, aimed at making the market work better. But in fact such compensations have been, and will continue to be, effectively denied to the ex-industrial regions, because the political power of London finance is such that it is London that claims the lion's share of regional expenditure on infrastructure. Thameslink, Heathrow Terminal 5, Crossrail and so on are apparently necessary to preserve London's 'competitive position'. According to an IPPR North Study, 85 per cent of the government's planned spending on infrastructure will benefit London and the South East.[4]

Seen from a historical perspective, recent developments in Britain and mainland

Europe are different but equally depressing. Right across Western Europe, one post-war legacy of the economically catastrophic 1930s was a reinvention of the nation through social settlements, underpinned by new policies of economic management, regional aid and social welfare (which in the UK meant Keynes plus Barlow plus Beveridge). Now what remains of those settlements is being attacked by a new regional nationalism of the privileged, often in alliance with central national government, which is retreating from previous assumptions and practices about obligations to transfer wealth.

We must begin to understand that politics should not be conceived of solely as the space where regional economic problems are solved. Politics can also be the place where regional problems are aggravated: central national government is often part of the problem rather than its solution.

Time for a gestalt flip

It would be an exaggeration to say that this discussion is more about politics than economics; but the argument so far implies that the problems of regional inequality are grounded as much in politics as in economics. This means that the implementation of effective policy depends on two preconditions. First, the political mobilisation of defensive political power in the disadvantaged regions, and, second, a kind of economic gestalt flip about the kinds of development policies that are needed to address the problems.

Politically, the ex-industrial regions in the UK need to rethink the case for devolution and the role of regional economic nationalism: the old framing of the issues was largely about whether any peripheral region has a strong enough cultural identity and sufficient economic strength to benefit by cutting loose. In the UK, this framing has made regional government and devolution mainly a Scottish issue, divisively tied to the electoral fortunes of a nationalist party, which will no doubt rehearse the old arguments in the upcoming referendum.

But the aggressive final dismantling of the postwar settlement in the UK means that it is time to reframe the issue. Devolution and regional economic nationalism are now relevant as defensive strategies for all centre-left parties in the ex-industrial regions. English regions like the North East and the West Midlands should rue the failure of Tony Blair to deliver English devolution, while Wales and Northern Ireland need to start thinking about what they could do with greater powers.

But the adoption of radical new economic policies in the UK regions cannot wait upon political mobilisation for further constitutional reform; and in fact there already exists within current structures considerable scope for innovative local economic strategy, which needs to be explored in imaginative ways. And here the example of Labour-controlled Enfield in North London already shows what can be attempted (see Alan Sitkin's article in this issue). As the case of Enfield Council demonstrates, the only basic political precondition for change is the recognition by local authority officers and members that ex-industrial districts and regions will continue to lose out under existing policies.

Existing economic policies on the regions are usually based on the tired old policy paradigm of structural reforms as per Thatcher and Blair, which now lives on in Chancellor Osborne's 'growth strategy'. This is where a major paradigm change is needed.

Osborne's latest plan re-introduces failed policies such as enterprise zones, and makes matters worse by eroding national pay scales; it also seeks to remove planning controls on Southern development - where every new house costs an extra £50k in infrastructure spending. And the Coalition has also institutionalised the evisceration of old-style regional policy with the creation of its Local Economic Partnerships, an experiment in regional policy that is without agency or resources.

Westminster and Whitehall fantasise about a 'rebalanced' economy with less regional inequality and more manufacturing. But Vince Cable's version of industrial policy lacks engagement with practical issues in the regions and focuses instead on grand projects and the prospect of export success for firms operating in a small number of symbolic sectors, which are to be tempted into expansion by financial incentives via tax breaks and soft loans. This policy is thirty years too late for Wales and the West Midlands, and it ignores key real-world problems, for example the crucial problem of broken supply chains - which unless addressed will mean that it simply will not generate enough jobs. The hard fact is that structural reforms based on orthodox economic theory will deliver few benefits for ex-industrial regions, whose trajectory of decline severely limits their ability to benefit from soft loans or grand projects. There is a desperate need for a change of approach, and for a new economic realism which engages with how the ex-industrial regions actually are (and not how we remember them, or would like them to be).

Though there are examples of industrial and regional policies that have reinforced or steered development in developing low-wage Asian countries, there are no templates or precedents for policies that could reverse the decline of ex-industrial regions in a high-income country like Britain. It is therefore time to start to think the unthinkable.

We believe that there are possibilities for renewal through guerrilla local development strategies, which could help both to overturn current economic thinking, and to give an economic purpose for devolution to the English city regions as much as to the Celtic nations.

The starting point for regional action would have to be the wide variety of foundational activities that reproduce every day life - the distributed mundane public and private activities which remain important in terms of output and volume employment after all other sectors collapse - because this activity is distributed and population-related. In the public sector this means health, education and welfare, which are everywhere large employers (nationally they account for just over 30 per cent of the workforce, and in Wales and the North East closer to 35 per cent). In the private sector it means the infrastructure and utilities necessary to everyday life that are used by everybody regardless of income or social status. Around 10 per cent of the workforce everywhere are employed in electricity, gas and water, supermarkets, basic food processing and transport.

There is no one magic policy to be adopted that would be key to sustaining foundational activities, because their output is socially important in diverse ways, and is inserted into various business models of employment and cost recovery. This means that the new policies would need to be various, non-generic and adapted to sectoral characteristics and requirements. For example, the community care sector needs a robust new social funding regime; while the food-processing sector (which remains the UK's largest manufacturing sector, employing 400,000) needs to be released from adversarial supply chain relations.

A new policy imaginary

It is clear that the ex-industrial regions will need to develop such ideas within a new policy imaginary - because their aim should be much more than ensuring horizontal competition and making the market work better. To give some illustration and indication of what this might involve, here are four principles for new thinking about existing private provision of mundane goods and services:

> *Think regional* - given the fact that the private sector utility model is to bring in the product and take out the money, ask the question: what is your supermarket, or British Gas, doing for the local community and the region?
>
> *Think chain* - a local retailer or final assembler adds little to the regional economy if the chain behind the lead actor is in chaos, or leads out of the area - so think about regionalising supply chains in food processing and distribution.
>
> *Think non-profit* - and think state enterprise rather than contracting out, because contracting out creates vested interests, leaves risk with the state and adds transaction costs, as we see from PFI or railways.
>
> *Think state enterprise* - the state could and should run revenue-earning enterprises on the model of Joe Chamberlain's gas & water socialism in late nineteenth-century Birmingham.

Many improvements in the real economy in ex-industrial areas depend on a re-plumbing of the financial circuits. This would be much more useful than the old policy of *gavage* - the force feeding of business with loans, as in successive failed government schemes to promote lending (e.g. Project Merlin, National Loan Guarantee Scheme, Funding for Lending) - or indeed the centre-left Investment Bank variant. Below we propose three moves that could be championed by local activists for economic development:

> *Back regional infrastructure*: the best initial projects would probably be social housing (preferably council-run) (other kinds of property development would need to be discouraged).
>
> *Mobilise pension funds*: don't send your pension fund to London managers but retain it in the local community for a social purpose, like building social housing.
>
> *Think 5 per cent return maximum:* your pension fund is not currently getting any more than this, and infrastructure is an inherently low-return, high-investment but secure return.

We need to be thinking of a post shareholder-value economy, where we can get useful things done locally and regionally for low and steady returns. There are signs of interest in this kind of alternative agenda in a number of out-of-the-way places. Think about how Kevin Morgan frames his campaign on school food and public procurement in Wales; or about how Enfield Council is questioning its utilities and mobilising its pension funds for social housing. Or have a look at the CRESC/VION project on pigs to pork, which highlights the success of the Morrisons model of vertical integration in pig meat supply, and criticises the transactionalist business models that have led to the decline of locally supplied meat products.[5]

None of these ideas and initiatives appears on the radar at Westminster or Whitehall. These centres cannot easily and effectively address the regional problem because they find it too difficult to emancipate themselves from the old policy imaginary, or to distance themselves from the interests of London finance. This is why the answer to our problems must be sought in the self-help and self-knowledge crucial to guerrilla action. The big local question is: what can local authorities (and devolved governments in Wales or Ireland and Scotland) do for the ex-industrial regions once the central state has become part of their problem?

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The authors' most recent book is *After the Great Complacence* (OUP 2011), which offers a critical analysis of the financial crisis. Recent research on the economy includes a major report *Bringing Home the Bacon*, on the problems of UK food supply chains.

Notes

1. GVA is calculated by subtracting the cost of raw materials and other inputs from the total value of goods and services produced. It differs from GDP in that it doesn't include either subsidies or taxes, which makes it useful for regional

comparisons for which there are no available separate tax figures.

2. J. Buchanan et al, 'Undisclosed and unsustainable: problems of the UK national business model', *CRESC Working Paper*, No. 75, 2008: www.cresc.ac.uk/sites/default/files/wp%2075.pdf.

3. Gordon (2007), *The Impact of Recent Immigration on the London Economy*, http://www2.lse.ac.uk/geographyAndEnvironment/research/London/pdf/theImpactofRecentImmigrationOnTheLondonEconomy.pdf.

4. E. Cox and K. Schmuecker, 'On the wrong track: An analysis of the Autumn Statement announcement on transport infrastructure', IPPR(North) 2011: www.ippr.org/images/media/files/publication/2011/12/wrong-track_Dec2011%201_8411.pdf.

5. See *Bringing Home the Bacon: from trader mentalities to industrial policy*, CRESC 2012: www.cresc.ac.uk.