What will it really take to level-up?

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Centre for Labour
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Chapter 1

Levelling up takes genuine devolution

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Introduction

'Levelling up' is the latest idea in a long line of heralded attempts to address decades of longstanding inequality, and variations in economic performance across the country. 'Levelling up' has been in part prompted by the government winning new seats in the North - the so called 'Red Wall.' Yet, in reality, 'levelling up' does not exist in any meaningful policy, resource or outcome. Indeed, just five years ago, similar claims were made about devolution to some English city regions to deal with regional inequality. However, these confusing and varied devolution deals were disingenuous, framed by austerity, and with little regard for environmental, economic or social justice. The deals were embedded into an economic model prescribed by the Treasury and Whitehall, who continue to this day to hold all the cards. Indeed, since 2015, instead of giving local areas the proper powers to deliver prosperity, devolution has been used to pass the responsibility to deliver austerity. Hence, with the pandemic, and subsequent economic and social crises, we are going to have to take significant, new and profound action to address these longstanding divisions, confusing and ineffective sets of differing powers and responsibilities to safeguard the wellbeing of millions.

Hence, this chapter considers and discusses how we solve the longstanding, deep and growing regional inequality. Firstly, this essay will explore the historic attempts to address this issue, with attention to the relatively recent focus on the regional city centres, and the perils of an economic model based on land and property appreciation. The paper concludes by suggesting what it would really to take to address

A brief history of failures to 'level up.'

The UK, and particularly England, is one of the most highly centralised countries in the world. It also has longstanding and persistent geographical disparities in economic and social conditions and outcomes.[1] The economic gap between London and the rest of the country has been in place for decades. Regional equality in the UK has become the worst of any comparable country and continues to grow.[2]

It is clear from many studies over decades that at the heart of economic success and greater levels of equality and fairness is effective devolution coupled with rooting economic activity in the local social, institutional, and economic fabric of places.[3,4] Despite this, the UK is highly centralised regarding both the economic domination by a region, i.e. London and the South-East, and by a centralised government who stewards fiscal and economic policies in favour of that region.

Today the disadvantage that stems from inequality is both complex and varied.[5] In the UK's former industrial regions, there are still disproportionate levels of premature mortality,[6] accompanied by lower rates of employment growth and substantially higher rates of poverty.[7] In regions outside of London and the South, productivity levels are similar to those found in central and eastern Europe.[8] England's coastal peripheries include some of the poorest and least productive areas of the UK, their problems exacerbated by disconnection due to poor transport links from more economically dynamic areas.[9]

Efforts to address these divides have ranged from the Barlow Commission in 1940,[10] through Beveridge, and the industrial policies of Labour's Wilson government, to the introduction of enterprise zones in the 1980s and recent initiatives such as the Northern Powerhouse. However, broadly speaking, these initiatives have been unable to close economic divides and the longstanding disparities of economic and social disadvantage.

In more recent years, attempts at decentralisation in England began with Regional Development Agencies (RDAs). These were set up by the Labour government in 1998. RDAs spent twelve years (up to their abolition in 2010) trying to bridge the economic output gap between London, the South-East and the rest of England. The work of the nine RDA's was complemented by targeted area-based regeneration such as the Housing Market Renewal Pathfinders Programme. The RDA's were a relative success and were supported by a network of regional government offices, EU funding and improved regional spatial planning. However, as is so often the case in regional policy, after a decade, the RDA's were hastily abolished by the coalition government,[11] and replaced by business-led, Local Enterprise Partnerships (LEPs).

The Coalition Government saw LEPs as a new non-managerialism and non-prescriptive approach to sub-national economic development. In practice, they remain stifled by centralism with a reluctance to devolve powers, responsibilities, or funding. Moreover, LEPs tended to be dominated by big business with little affinity to place.[12] Accompanying LEPs, was a process of devolution, heralded by the then Chancellor George Osborne, as a 'devolution revolution.'[13] Although more accurately this was mere delegation, due to the limited nature of the power and resources involved.[14] City regions, in particular, have been focussed upon and identified as an integral part of devolution shaped by priorities around public finance deficit reduction and ambition to enable cities to boost economic growth and recovery.[15] Despite the claims, this period can only be described as an ad hoc, incremental and piecemeal episode of decentralisation, succeeding in merely pulling devolution in a range of directions and muddling its precise objectives.[16]

Following the introduction of LEPs, central to the government's approach to devolution has been the process of 'deal making' whereby agreements on decentralised powers, responsibilities and resources have been negotiated between national and local city region actors. As such, we have at times seen tortuous and fraught deals emerge, whereby local city regions - after much 'negotiation' with Whitehall and the Treasury- end up signing an agreement, with only some decentralisation of power and resources from Whitehall departments and different combinations of powers allocated to different areas (see figure 1).

Different combinations of powers allocated to different areas

	Skills & Adult Education	Housing	Investment Fund	Transport	Low Carbon & Energy	Business Support	Heritage & Envirionment	Policing & Crime	Health & Wellbeing	Justice
West Midlands		●	●	●		●				
Greater Manchester	●	●	●	●		●		●	●	●
Liverpool	●	●	●	●	●	●	●		●	●
Sheffield	●		●	●		●				
West of England	●		●	●						
Cambridgeshire & Peterborough	●	●	●	●						
North of Tyne	●		●			●				
Tees Valley	●		●	●		●				

Figure 1.

A charitable reading of this picture could interpret this outcome as rightly reflecting geographical differences in ambition, aspiration and capacity for decentralised governance. However, a more critical perspective recognises that what has emerged is a profoundly unjust and unequal manifestation of devolved power and resource.[17] What we see here in devolution is not a significant levelling up via the breaking up of central power in order to forge new economic futures, but rather the power to only act within the confines of what Whitehall allows, and only in certain geographical areas. Namely, what has been devolved is not the full powers to deliver prosperity, but the responsibility to deliver austerity. Whilst some levers were decentralised (as indicated in the table), this did not include wider fiscal powers or other social inputs to economic success such as welfare. Meanwhile, all of this sits within retained austerity and a dominant market-liberal economic model, with financial investment indelibly skewed to existing winners.

The agglomeration economic model

Agglomeration is the process by which economic success is seen as accruing through concentrated networks of policymakers, companies, consumers and workers. Therefore, the focus is on the larger cities, as this is where there is a greater likelihood of smaller supply chains, cost reductions, and productivity increases take place. However, this economic model has paid too little heed as to the quality of these alleged benefits and how corresponding wealth and opportunity are to be distributed. With a narrow focus on economic growth, agglomeration approaches tend to champion high growth sectors such as digital and knowledge-intensive business services as well as asset-based appreciation stemming from property development. Nevertheless, the benefits have not filtered into any significant reduction in inequality or addressing social or environmental injustices. Despite such failings, these are then presented as the economic model to which other places should aspire.[18]

At the core of this agglomeration, economics is a desire for speedy return on capital investment. This means there is a preference for the relatively safe property and land markets (often in our urban centres of our core cities). This skews investment away from the relatively employment rich real economy of manufactured goods and services and the less investment-ready locations. The investment sector – when it does look to the real economy – prefers those businesses in the North or South with collateral, which can be pledged against the investment. This means property and developers. It does not mean small manufacturers or businesses whose pledge is the knowledge and ideas within their own heads.

More impoverished places or those more distanced from economic growth are seen as benefiting either through trickle down in wealth through jobs or a 'trickle outwards' of wealth toward any outlying (and poorer) areas of cities and neighbouring towns. In practice, there is no substantive trickle down or trickle outwards of wealth and opportunity. Instead, the rise of 'residential capitalism'[19] and 'rentier capitalism'[20] where economic growth stems from appreciating asset values, has left all but a few speculative winners better off. There is, for example, little evidence that the faster-growing cities in the North, such as Manchester contribute to the growth of surrounding places.[21] As such, the regional hinterlands and areas outside of these city centres are more and more left behind, with towns such as Bolton, Wigan and Rochdale continuing to struggle despite the economic success of Manchester City Centre and growth hotspots.[22] What is more, given their greater social needs and higher associated cost of service provision, local authorities in these left-behind places have borne the brunt of austerity since 2010, widening social and spatial inequalities.[23]

Furthermore, investors are now increasingly global, often with little or no attachment, connection or affinity to local places. This means that local investors do not readily recirculate the return on investments into our local economies. Indeed, in an era of opaque and fast-moving global capital, it is increasingly difficult even to identify who investors are or avoid any offshoring of capital return. In this context, there are limits to any traditional central government 'after the fact' redistribution. By the time any wealth capture process is in place, the wealth has already been extracted – into the ether of the global economy.

Despite these failings, the benefits of an agglomeration approach continue to be rehashed as part of the continuing solution to the English devolution problem. The new Prime Minister has pledged to 'do devolution properly' with "'levelling up' across every nation and region across the UK, providing support to towns and cities and closing the opportunity gap in our society".[24] The pledge included more funding support for towns and a proposal for a Northern Powerhouse 'growth body'[25] to stimulate growth across the North of England.[26]

The term 'Northern Powerhouse' emerged as a policy agenda led by George Osbourne, whilst Chancellor of the Exchequer, encapsulating the idea that if the northern English cities were joined into a single economic bloc, they would have the power to counterbalance London.[27] As it stands, the "Powerhouse" dream being touted as the savour epitomises the precise failings detailed above. Powerhouses are in essence no more than a branding exercise that seeks to marketise a particular geographical area, encouraging investment in residential and commercial real estate and associated infrastructure.[28] Whilst more funding support for towns may help, its association with an agglomeration approach will mean that the failings exposed above will continue to dominate.

Economic policies, which truly recognise the problems of economic centralism and investment, and will focus on rebuilding manufacturing, in the north, west, east or the south would create a beefy national industrial strategy, a national strategic plan, and dedicated regional investment vehicles. No such things are in place. As a result, many areas across the land remain investment-ready but are underinvested in.

What it takes to really level up?

The problem of regional economic inequality has bedevilled England for decades. Years of incremental ideas and piecemeal approaches have failed. We, therefore, need a progressive leap, which rejects the flawed devolution of the now and genuinely transfers power to people, communities and local democratic bodies. This needs to be done within a deeper national system of fairness and with a proportionate response to the climate emergency. In this, there are both directives to national policy makers as well as a set of recommendation to Metro Mayors and local policymakers in terms of what they can and should be doing here and now to mitigate against the current devolution agenda's failure to tackle social, economic and environmental justice.

1. The ask from the national government:

Hold a national constitutional convention. Devolution has been weak and created confusion. It has failed to tackle the fundamental imbalances of power and wealth. To resolve this imperfect mess, we need a national constitutional convention, involving devolved nations, local government, metro mayors, Parliament, the business community, Trade Unions and civil society organisations. This whole conversation should form the basis to new legislation, to be taken forward by Parliament. This conversation should consider:

- how to develop an enduring package for constitutional reform;
- the likelihood of a federal UK and England;
- reshaping local government so that it sits alongside the central government as a co-director of the nation.

Establish a new national redistribution process. We need a clean start in which we create a national process of redistribution to deal with longstanding regional economic imbalances, and ensure a more level platform for all areas, in perpetuity. This should include a local needs assessment with a recognition that poorer areas need more resources. Others have made some calls as part of 'levelling up' for a national UK renewal fund,[29] or greater retention of local business rates. However, we argue that forms of renewal and regeneration funds have been tried in the past and have failed to deliver the transformation that is needed (for example, the national strategy for neighbourhood renewal, and the RDA 'single pot'). Furthermore, local or city regional retention of business rates on its own would merely deepen inequality.

Create new fiscal powers for local areas. New local tax powers should be agreed, but only once an appropriate national redistribution method is established (as above). These new powers should be used to create more secure links between people and local government by increasing local tax intake. Business rates reform, a local land value tax, hotel or tourist tax should also be considered.

Further social devolution. Human and social capital is the basis of a new productive and inclusive society. Therefore, English devolution must shift its limited focus on infrastructure, skills and economic development towards social powers and resources. Local areas should also gain more control and power over national sources of social investment, including welfare, education, funding for the social sector, cultural policy and arts funding. This should be facilitated by pooled pots of place-based funding for local government, covering the main elements of public resources within any given locality.

1. Local action – a progressive agenda for English metro mayors:

Adopt community wealth building across the whole city region. Whilst economic and industrial strategy has focused on tech and high-productivity trading sectors, middle and low paid workers in low-productivity, non-traded sectors have been neglected.[30] We have ignored the important role that everyday economic sectors (such as retail, care, transport and utilities) play. Place-based approaches, such as community wealth building[31] should therefore be utilised to empower local areas and communities to maximise their existing skills, talents and capabilities.

Community wealth building has emerged as a powerful tool to democratise our local economies and create wealth for all. It rejects the traditional economic development pathway and offers an approach where, the economy and wealth are brought closer to our everyday lives, our communities and our neighbourhoods. This will require a much greater emphasis on the foundational economy as the entry point for a revitalisation of our local economies, particularly in sectors such as retail food supply, retail banking and telecommunications. These sectors of the economy ought to be the terrain through which our next political economic epoch is forged, receiving a much more prominent position within industrial and economic strategies. By harnessing the virtuous intent of local policymakers to embrace more democratic control and new forms of ownership, the power of the foundational economy could be genuinely unleashed, thereby creating a plethora of inclusive local economies for all. To advance a community wealth building approach,

1. **Establishing a community Wealth Hubs -** These community wealth hubs would be a fundamental refocusing of business support, to ensure there is a plurality of vibrant, commercially viable, locally based, generative businesses (SMEs, co-operatives, mutuals, publicly owned enterprises and social enterprises) able to supply local needs for foundational economy goods and services.

2. **City region companies.** These would support the formation of municipal led and owned delivery models, in key employment sectors where large, extractive industries currently dominate and where there will continue to be high levels of need/demand post-Covid-19. For example, the housing construction market.

3. **A city region bank –** to provide an alternative to traditional models of financial exchange and support alternative models of ownership;

4. **Local state holding companies.** With the economic fallout from the pandemic, we face a massive prospective ownership transition, on the back of a wave of business closures for small and medium-size enterprises (SMEs). To counter this threat, we should consider the creation of holding companies to acquire and hold distressed business assets during the crisis until they can be relaunched.

5. **Address climate emergency through a local green new deal.**[32] In previous eras, we have been encouraged to understand 'the economy' and 'the environment' as separate physical and conceptual entities, but we are now in an era where the deep symbiosis between the two must be treated as indubitable. The 'economic' must be recoupled to the 'environmental'. In particular, this calls for a national Green New Deal to have a local element and for local authorities/combined authorities to commit to a local Green New Deal plan. This should embrace the principles of

community wealth building, as described above, to engage local citizens in a piece by piece attack on extractive fossil capitalism.

6. **Establish citizens assemblies.** Workable solutions for left-behind places will require a bottom-up approach, where a range of political and civic actors come together to enforce and promote identity, respect and resilience within local communities. A deepening of democracy will therefore be fundamental in turning back the market liberal tide. But whilst civil society, social action and democracy are the basis to a productive, inclusive economy and society, a substantive democratic process means going beyond the mere expression of preferences at the ballot box. As such, we should enact more deliberative mechanisms that allow all citizens to participate and have a real impact on the decisions that affect their daily reality. We must therefore accelerate existing experiments in deliberative democracy within combined authorities. This should include citizens' assemblies and participatory budgeting.

Conclusion

We need genuine steps to devolve power, which would have a demonstrable impact on real economic and social lives of communities. We need an economy which truly works in the interests of many working class, lower incomes and marginalised groups. The above suit of recommendations offers that by focussing on a deep reform and reset approach. In doing so, it rejects the rhetoric of levelling up from Westminster. Levelling up needs to get real – but so does our response to it. A decade of austerity and flawed devolution– despite the commendable efforts of committed politicians and council officers – show us this is a losing game. In this crisis, we need to demonstrate boldness and belligerence across the local government family – a willingness to hold the government's feet to the fire, and ensure their rhetoric matches the reality. Our communities and localities deserve no less.

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