

# Review: how to really level up the UK

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Miatta Fahnbulleh, Emmert Kiberd and Andrew Pendleton (2021) *Closing the Divide: How to really level up the UK* New Economics Foundation

This recent publication from the New Economic Foundation starts by explaining not just the extent of regional differences in the UK but the extent of differences within regions. From 2019-2021, household incomes and labour productivity have hardly increased at regional level in the North East, North West, Yorkshire and Humberside and Northern Ireland but have risen dramatically in London and the South East. Differences in income levels and labour productivity *within* these regions have also increased.

Previous regional development strategies only focused on closing gaps between regions rather than within regions. A more nuanced approach will be required, which has to build on a better understanding of productivity rates and community needs. Higher productivity rates do not necessarily result in higher disposable household income. The cost of living is influenced by global prices, often unrelated to local economic input. People do not always live and work in the same geographical area or district. The pattern of distribution across families also affects household income. As well as household income and the strength of the local economy, a third factor, a social infrastructure, has a lasting effect on standards of living. Public services provide a social wage and cuts in public services affect low-income households disproportionately. (See Table 1: Social infrastructure.)

Building on this analysis, *Closing the Divide* has developed a framework for identifying the greatest need

for levelling up. (See Table 2: Framework for levelling up.)

Five policy solutions are outlined: 1. Development of local power; 2. Emphasis on living standards not just economic growth; 3. Focus on the 'everyday economy' not high value-added sectors; 4. Support for small/medium sized enterprises; 5. Green economy.

## 1. Development of local power and less central control

One of the most important recommendations is the importance of decentralising power to local level institutions and reducing the grip of central government. Acknowledging that the current mix of local authorities, district councils and county councils will have to be simplified, *Closing the Divide* recommends the creation of new city and county institutions, drawing on the Mayoral Combined Authorities, which have been created in the last decade. Combined Authorities allow local authorities to take control of public services, for example transport, across a region, enabling them to integrate the ways services are delivered.

However, there are considerable problems with Mayoral Combined Authorities. They were introduced by the Localism Act 2011 which 'imposes referendums on local people and local authorities, not sought by either'; and the Act 'is not based on a logic of localism, but on a logic of centralism' (Jones & Stewart, 2012). The focus is on personality not politics, and this results in cronyism, patronage and corruption. They have not led to higher turnout at local elections and have often

**Table 1:**  
**Social infrastructure**

Social Infrastructure	Elements
Building and the built environment	Libraries, community centres, parks and green spaces
Services and organisations	Public services, eg adult daycare, childcare and education, and sports facilities, and not-for-profit organisations
Strong communities	Social cohesion, shared values and democratic participation in decision-making

**Table 2:**  
**Framework for levelling up**

Types of area	Characteristics	Examples
Relative prosperity	Strong living standards	Cheshire East, West Kent, Herefordshire
Held back	Low income, low productivity and weak social infrastructure	Wakefield and Durham
Disconnected growth	High productivity but low incomes and weak social infrastructure	Essex Thames Gateway and Solihull - weak social infrastructure Southampton and Darlington - low local incomes Sunderland and Coventry - low local incomes and social infrastructure

been a distraction from austerity policies which have cut public services (Latham, 2017).

A new system of local and regional institutions would be needed to fully decentralise power. It is recommended that new regional authorities would establish links with local anchor institutions, pooling investments and building on the 'Preston model'. However, the wider experience of decentralisation has shown that some form of central oversight is still needed

if an overall assessment of policy implementation is maintained.

## **2. Change in focus from economic growth to living standards - increasing disposable incomes and access to social infrastructure**

To raise living standards, Closing the Divide argues for three types of intervention: increased living wages,

investment in public services, and specific funds to expand jobs and community development. It recommends building on the recent increase of the National Living Wage to £9.50 an hour and giving the Low Pay Commission a new mandate to increase the National Living Wage so that it matches real living wage levels, which reflect the true cost of living. In addition, Combined Authorities in areas with a high levelling-up need should be given funding to roll out minimum income guarantee schemes in their most deprived communities, providing top-up cash payments to households. Acknowledging that public services provide a social wage, the report recommends further investment in social infrastructure, through child-care and social care, which would help to increase household incomes by taking away the need to buy private sector services. A more specific investment of £15-20 billion would be used to expand public sector jobs, pay and training in eleven key occupations, to be done in line with local priorities. A £3 billion Common Wealth fund would be for local communities to have a significant influence over the regeneration of local areas.

### 3. Shift in focus from high value-added sectors to everyday economy

The 'everyday economy' is defined as retail, hospitality, care and other public services, and provides over 60 per cent of jobs. The expansion of these activities will have the most impact on a local economy. Although jobs in the steel or car industries are better paid and have some impact on the local economy, they only provide a small percentage of total jobs. Increases in the quality of everyday jobs will be important in terms of pay, terms and conditions. More encouragement to grow the social economy - cooperatives, community and social enterprises - could provide better paid and more secure jobs than in the for-profit private sector. Again, the link to anchor institutions which would involve the social economy in local institutions would be important.

### 4. Move from large business to small and medium-sized enterprises

The recommendations for supporting small and medium-sized enterprises (SMEs) focus on controlling rents and providing access to finance. The Mayoral Combined Authorities should define a 'Working rent' for SMEs which would 'set rent requirements on commercial landlords to provide security of tenure and inflation-linked rent rises, capped at 10% of turnover'.

National level action is needed to provide access to finance for SMEs. The Bank of England would provide credit guidance to banks which would encourage lending to SMEs. In addition, regional community banks

would be set up in areas where commercial banks are closing branches. Some of the lending criteria would encourage low-carbon activities. This regional banking system would complement regional-business hubs which would provide advice, mentoring and training to strengthen leadership and management in SMEs.

### 5. Shift to green economy

One of the most important points made in *Closing the Divide* is that levelling-up strategies have to complement and be integrated with green/net zero policies. Many of the areas that require levelling up have the highest concentrations of high-carbon industries and are the most likely to be affected by measures to promote climate stability. Although current government policy includes the rhetoric of linking net zero and levelling-up policies, in reality it has failed to create a coherent industrial policy, which incorporates 'economic, employment and social aspects of industrial change'. The closure of coal-fired power stations, related industries and supply chains without an industrial strategy which invests effectively in low-carbon, construction, green energy, nature conservation as well as jobs in the everyday economy, will result in high levels of unemployment in the areas in need of 'levelling up'.

### Implications for FE/HE

One of the most significant recommendations of *Closing the Divide* for the FE/HE sector is the 'full devolution of the adult education budget, the life-long learning loan scheme, and underspent apprenticeship levies to Combined Authorities to build their skills systems and to make it responsive to future needs of the local economy'. However, each policy recommendation has implications for the FE/HE sector. New regional and local institutions would need education, training and research support. The sector could play a leading role in creating new social infrastructure, in expanding the 'everyday economy' and the green economy. It could provide training and support for SMEs.

### Conclusion

*Closing the Divide* is an important publication and has many important policy recommendations for future levelling-up policies. Although the emphasis on Mayoral Combined Authorities has its limitations, a more carefully designed regional structure could provide an effective way of coordinating the strategy for levelling up. Many of the recommendations are key to both levelling up and a future green economy and the close relationship between these two policies has to be more widely recognised.