New Economy

A disjointed dynamo

The Greater South East and inter-regional relationships

IAN GORDON
LSE

The Greater South East (GSE), defined here as the Government Office Regions of London, the South East and the East of England, is one of the great economies of Europe, with a GDP comparable to that of Spain or Russia and substantially exceeded by only three European states: France, Germany and Italy. Real growth rate comparisons are not possible, since no price indices are available for the GSE economy. In the short run these would largely reflect fluctuations in the national UK economy, into which all of the GSE is very tightly integrated, relative to those in continental economies.

Over the long run, it might show something better, since nominal GDP is estimated to have risen by six per cent a year in the GSE between 1989 and 2001 against five per cent in the rest of the UK. In terms of income or output per head, its position is comparable to that of Northern Italy, the extended Parisian region, Bavaria/Baden Wurtemburg, or the West Netherlands, with GDP per capita some 20 per cent above the EU average. Among these economically successful European super-regions the GSE stands out for its combination of scale with internal economic integration, supporting a set of unmatched agglomeration economies across the region as whole. Structures of political integration are more problematic, however, both within the GSE and in its relationships with less economically dynamic regions in the north of the UK.

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Economic integration

The scale of activity tied into the GSE reflects three factors operating together over the last half century. The first of these was London's own scale, established competitive strengths in modern activities, and the need for these expanding activities to be accommodated somewhere. The second factor was Green Belt policy which ensured that very little of the consequent population and employment growth would occur immediately around London, but would leapfrog to expand previously independent settlements in areas beyond the belt. The third factor, making much of this possible, was the historically strong radial public transport network focused on central London and reaching out

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across the neighbouring regions.

Through the 1950s, 60s and into the 70s these shifted the balance of both population and employment out into what was seen as London's commuter hinterland: an economically comfortable region with expanding consumer services, light industry and some back offices added on to a variety of older local specialisations. Over the next 30 years, however, the trend went much further and, with new business services and high tech activities added to the mix, evolved into an integrated GSE economy. High level metropolitan and even international functions came to be performed from an array of centres around the region, not simply from the core. In this regionalised version of London, outer areas now substantially contribute to its agglomeration economies, as well as continuing to benefit from those rooted in central London.

A significant indicator of this shift is the pattern of product innovation, as recorded in the EU's Community Innovation Survey. For the GSE as a whole innovation rates emerge above average (as might be expected) But this turns out to be largely attributable to concentrations of innovative firms, not in the core, but in locations well out in the region. Current policy fashions identify these firms and locations with actual or potential 'industrial clusters'. But the research evidence is that the crucial assets on which these firms draw tend to be regional rather than local in scope, especially in relation to pools of highly-skilled labour (Simmie *et al* 2002). Other key location-factors which are similarly 'regionalised' include access to international air services and to central London, for those businesses requiring rapid but not over-frequent interaction with key decision-makers, information sources and specialist business services.

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The perception of region-wide strength in skills availability – though actually more true of the western half than the east – points to another key fact about the structure of the GSE, its highly integrated network of labour markets. This is not simply a matter of the ability and preparedness of some members of the service class to commute very long distances, especially into the centre, but of the dense overlapping of the travel-to-work fields even for groups with much more restricted commuting ranges. This interlocking structure means that local employment shocks (and equivalent housing market shocks also) diffuse through the region. A consequence is that across all but the very fringes of the GSE, sub-regional variations in economic performance have hardly any impact on local standards of living or employment rates (Buck *et al* 2002).

In particular this is true of the relationship between inner and outer parts of the region, which was a matter of recurring concern during the period before 1980 when London's own employment base was constantly shrinking alongside steady growth in outer parts of the super-region. Then policymakers tended to see falling employment, especially in inner London, as representing a bleeding away of economic assets which naturally explained the sharp concentration of deprivation within inner areas. That was always a mistaken view, since it was almost entirely a matter of the housing system concentrating in these areas those who occupied the weakest position in accessing labour market opportunities in the wider region. But the point should have become absolutely clear over the last 20 years as the concentration of unemployment in the 'crescent' of inner east

London got substantially worse despite a halt to the downward trend in London employment. Only with the recent appearance of full employment across the wider region has this concentration started to disperse (Buck *et al* 2002). For spatial equity within the GSE, as well as for its overall employment rate, it is the competitive performance of the region as a whole which matters.

Political disintegration

Recognition of this strong economic interdependence across the GSE ought to bring a withdrawal of public bodies from internecine competition in favour of concerted action to build economic assets. This needs leadership and encouragement since property owners and some other special interests retain a stake in local success and failure. Unfortunately the regional agencies established by New Labour that could have taken on that role were given territories carving the GSE into three, in ways that cut across key axes of interdependence. The London Development Agency at least has explicitly foresworn wasteful competition either within the GSE or with the 'north'. But the fact remains that RDAs have targets related to investment and job creation within their territories which inevitably favour competition over co-operation. Within London the Mayor's Plan takes for granted the merits of accommodating large scale population and job growth within his territory – perhaps as providing the best route to securing necessary infrastructure funding from central government.

With some foresight, the clumsier aspects of this territorialisation could have been avoided, notably the involvement of three separate RDAs in the strategic Thames Gateway area. But there are some inescapable problems in fitting this vast and complex super-region into the new model for English regionalism. In particular there is a gulf here between the scale of territories with which people feel any sense of identification and the much larger scale over which joined-up thinking and action are required on economic and planning issues. Neither tinkering with boundaries nor even a merger of the current regions will solve this problem, which needs an imaginative combination of initiatives ranging from consensus building, through joint working projects to incentive structures. To frame this and link this super-region directly into national decision-making requires a different kind of institutional settlement, with a strong political figure (a Minister or Prefect) heading a single, strengthened super-regional Government Office which could deal authoritatively with the three (or maybe more if the amorphous South East region were disaggregated) sets of Assemblies and Development Agencies (Gordon 2003).

The South East versus the Regions?

Within the UK the GSE's position is distinctive in terms both of the quality and variety of its economic assets and its cost structure. Its relationship with the other UK regions is both competitive and complementary, in that there are roles for which it has strong economic advantages over the rest of the country, but also many where there are overlaps. This is true even of the London economy, most of which remains based on businesses serving the national market, often in competition with businesses elsewhere. There is a good economic argument for allowing competitive forces to increase the distinctiveness of the GSE economy, with more cost-sensitive functions shifting to other regions. Over the long run, however, this runs the risk of further polarising economic structures and opportunities in ways which may waste human potential in initially less favoured regions, as well as undermining political cohesion. In any case, contrasting the GSE with the rest is too crude, since there are metropolitan economies outside the GSE which also have the potential to compete strongly on the basis of quality, at least in niche markets for which they can offer distinctive strengths.

William Cobbett's famous representation of the capital as a Great Wen, drawing the strength of the nation into an inflated pustule, has become regionalised in recent years, like the London economy itself. The metaphor is translated in various ways, but is still a powerful one – as it was in the mid-1960s when a perceived 'drift to the South East' contributed to the push for a more effective regional policy for the UK. One version has involved the creaming-off of high level public sector activities, notably defence-related R&D, funded from the national exchequer for locations in already prosperous parts of the GSE. Another has focused on a 'winner-takes-all' tendency in the location of unique 'national' facilities, whether in culture or air services, in areas seen as having the appropriate standing, as well as the greatest concentration of demand. A third highlights a continuing brain drain of the 'best and the brightest' – or at least many of the best qualified – among the young to opportunities in what Tony Fielding (1991) characterised as the 'escalator region'. Running through such examples are a mixture of complaints about unwarranted prejudices by a GSE-based elite, recognition of processes of cumulative causation as high-level demand and supply reinforce each other in the initially advantaged region, and a perception that hidden costs of congestion and over-concentration are not considered ahead of taking decisions.

IPPR's own recent report arguing for a revitalisation of regional policy in the UK (Adams *et al* 2003) takes up three of these strands, arguing that: more opportunities for the highly qualified should be located in the 'north'; that government R&D spending and national administration are over-concentrated in the GSE; and that congestion and growth-related spending needs should be funded from additional local or regional taxation, as part of a programme of fiscal devolution. As applied to public sector activities, none of these arguments are in principle objectionable, although there may be stronger operational constraints than are recognised on dispersing those policy groups still subject to parliamentary scrutiny.

> ***"More effective regional devolution of funding and decision-making about infrastructure and public sector pay, could well end up providing a greater boost to growth in the GSE than to the north"***

More effective regional devolution of funding and decision-making about infrastructure and public sector pay, while increasing fiscal equity, could well end up providing a greater boost to growth in the GSE than to the north. Currently the region is estimated to make a net fiscal transfer of some £30 billion per year to the rest of the country, which is the difference between a share of taxes a bit above its proportion of GDP and a share of expenditure a bit below its population share (Gordon *et al* 2003). This would represent a redistribution of about 60 per cent of the additional GDP per head earned in the GSE, relative to the national average. These numbers put into some proportion estimates that housing elements of the Communities Plan would provide a net shift of £3billion into the GSE over four years, or that its share of transport expenditure is close to its share of GDP rather than of population (giving it about £1billion per annum above its population share). A fiscally autonomous region might very well choose to spend significantly more on both of these functions – and a level of education spending which permitted core areas of the region to compete effectively in recruiting and retaining able teachers. The outcome ought to be positive for national competitiveness, but it would be unlikely to reduce regional disparities in either incomes or economic performance.

Taking the GSE seriously

Historically there is little doubt that the GSE has benefited economically from access to governing elites in many organisations and from their prejudices. At the same time it seems to have been difficult to favour it openly in the allocation of resources where these may be required to sustain its dynamic economy. National politicians have also rather bottled out of either exercising strong leadership in relation to intra-regional conflicts, for example over the location of housing or airports, or creating an arena in which these can be effectively resolved.

This is not entirely surprising, since this is a complex region which produces complex problems. It remains, however, the UK's best hope of securing national economic success. As such it deserves serious attention to its needs and management *on a continuing basis* and structures which maximise the chance of this occurring. Whatever the virtues of the new regional institutions, at least in London, they have only served to disjoint the GSE. What is needed now – for regional equity and competitive success – is an institutional and financial framework allowing region-specific needs to be met out of regional resources, and sub-regional actors incentivised to contribute to region-wide assets and meeting region-wide needs ■

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