

Briefing Paper

The UK's Regional Inequalities in Comparative Perspective

Dynamics and Consequences



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About Scotianomics

In the 21st century data is everywhere but it is the analysis that transforms data into valuable, actionable knowledge that is key to success.

Organisations, both in Scotland's private and public sectors, lack access to useful, reliable data and value-added analysis of the kind that most advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy and disrupts the pursuit of shared prosperity.

Scotianomics aims to spark a knowledge revolution and inform the decision-makers on Scotland's economy. We provide cutting-edge intelligence and strategic planning resources so that stakeholders can gain a wide view of the threats and opportunities in the world through our geopolitical, economic and policy analysis, unique historical datasets, risk and opportunity forecasts, Geographic Information System mapping solutions and strategic planning services.

Gordon MacIntyre-Kemp

Director

Executive Summary

- The UK is home to extreme regional inequalities, a sign that its economic system is failing to redistribute wealth effectively, a problem that has created political instabilities within the state.
- For example, Inner West London, 2017, was 188,300 euros wealthier than Southern Scotland in per head GDP terms. Compared to neighbouring northern European states, the UK is among the most unequal in terms of regional distributions of wealth.
- Looking at individual European Union regions in isolation from one another, Scotland's 5 regions experienced, on average, a 3% decline in per head GDP from 2007 to 2017. The regions in the rest of the UK, worse still, experienced a 5% decline. This is in contrast to positive average regional GDP growth rates across neighbouring northern European states.
- The most dynamic economies in Europe are proving to be those in which domestic regions are on an even level of development.

Introduction

The UK is home to extreme regional inequalities, a sign that its economic system is failing to redistribute wealth effectively, and a problem that has created political instabilities within the state. For example, Inner West London, in 2017, was 188,300 euros wealthier than Southern Scotland in per head GDP terms. In this briefing, we explore the dynamics and consequences of the UK's inequalities.

Southern Scotland's Economy in Perspective

Between 2007 and 2017, Southern Scotland's regional economic wealth (GDP) measured per head averaged at only 19,599 euros. Looking at the regions across a benchmark selection of nations with similarly developed economies in northern Europe, Southern Scotland ranks among the poorest. Its regional GDP per head was almost half the average of national economies in this country selection, or roughly equivalent to the national GDP per head of the Balkan republics of Slovenia and Greece. The region, strikingly, is 188,300 euros poorer than Inner West London.

The UK's Regional Inequalities in Perspective

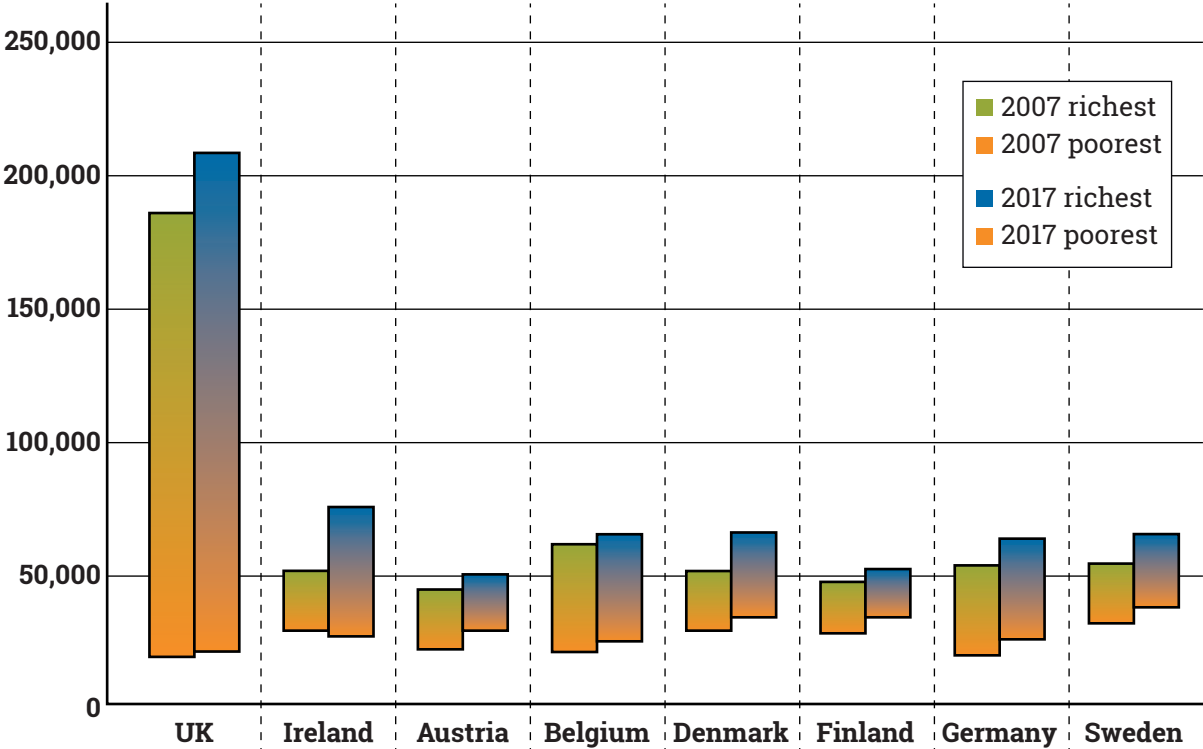
This striking inequality is the greatest visible gap in wealth between the poorest and richest regions of any wealthy state in northern Europe: the average gap was 31,088 euros. In terms of the wealth gap between the richest and poorest regions, therefore, the UK performs worse than its neighbours by 157,213 euros per head.

To combat this, the Scottish Government created the South of Scotland Enterprise, introduced to growth the economy of this region, and due to become operational by 2020. Still, under the present circumstances the Scottish Government has a mountain to climb.

Inequality between regions has been growing across Europe in recent times. But other states are still far from the extreme -- and worsening -- UK situation. The graph below shows the levels of inequality between the poorest and richest regions among our northern European selection and demonstrates clearly that other nations do not have the same inequality problems that the UK has created.

Whereas in 2007 Inner West London was 9 times wealthier in per capita GDP terms than Southern Scotland, this grew to 10 times in 2017. In the graph below, we can see that Southern Scotland has seen very little growth in the past decade.

Figure 1. Inequality Between Poorest and Richest Regions of Select European States

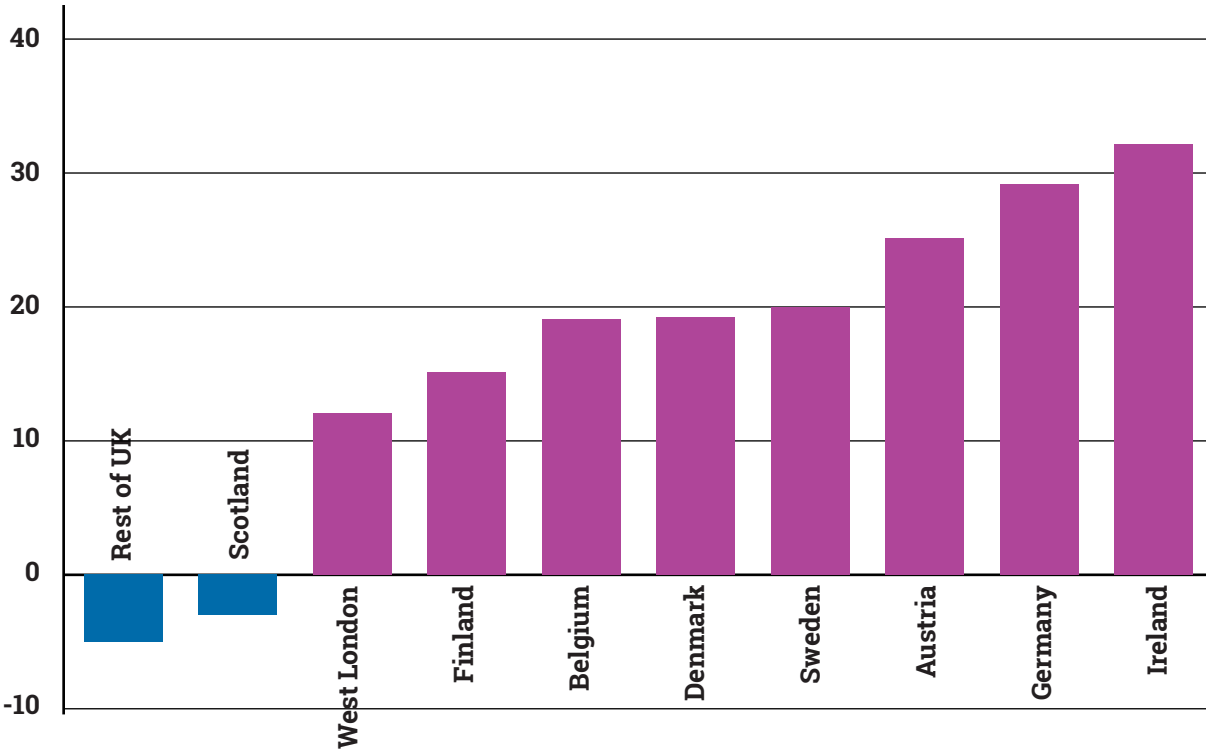


Devolved governments and local authorities across the UK still have to contend with the main thrust of the UK’s economic strategy. Since the 1970s, UK governments of both parties have pursued policies intended to make London the financial capital of the world, at the expense of the industrial base in the remainder in the country. The result has been a concentration of wealth and power in the South East, namely the City of London (a part of Inner West London), and a divergence between regions.

Inequality and Economic Performance

As a consequence of this, the overall economic situation across most regions in the UK has been tough. Looking at individual European Union regions in isolation from one another, Scotland's 5 regions experienced, on average, a 3% decline in per head GDP from 2007 to 2017. The regions in the rest of the UK, worse still, experienced a 5% decline. The graph below demonstrates this: as a caution, what it shows is not the national GDP change from 2007 to 2017, but the average GDP change of the regions in these nations.

Figure 2. Change in Average Per Head GDP of Domestic Regions (%)



Looking at GDP changes from a regional level like this tells us about how growth or decline has been distributed across the state. As a whole, the national per head GDP of the UK declined by 4% during this period. But this ignores the fact that so many regions performed much more poorly than this: regions in Yorkshire and Outer London shouldered double-digit declines in GDP per head.

Mirroring this was double-digit growth in Inner West London, which experienced 12% growth while most of the country declined between 2007-2017. For sure, Southern Scotland saw a 4% increase in per capita GDP during this period (from a very low base, nonetheless), the only Scottish region to grow — it still sits, however, as one of the poorest regions among our wealthy, northern European neighbours.

In contrast to this, there was a 25% rise in average per head GDP of regions in neighbouring states. Inequality, then, is not just a symptom of the poor economic performance that has dogged the UK. It is one of the central causes of it.

Conclusions

- What all this suggests is that the most dynamic economies in Europe are proving to be those in which domestic regions are on an even level of development.
- Wealth from many of the UK's regions outside the capital have travelled into London, specifically its financial centres, as the UK has maintained an economic plan that has consolidated inequality in the state.
- Inequality is not just a symptom of the poor economic performance that has dogged the UK. It is one of the central causes of it. Moreover, this inequality is now threatening the political coherence of the UK, creating extreme political instabilities in the state.

