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Spatially Rebalancing the UK Economy: Towards a New Policy Model?

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Abstract

MARTIN R., PIKE A., TYLER P. and GARDINER B. Spatially rebalancing the UK economy: towards a new policy model?, Regional Studies. The current UK government has announced its intention to rebalance the national economy spatially, to create a 'northern powerhouse' to rival that in London and the South East. This imbalance is in fact a longstanding problem that 90 years of regional policy has not resolved. This paper argues that the entrenched nature of the UK's spatial imbalance derives in part from the centralized nature of the national political economy, and that only a bold and radical change in that political economy - based on a devolution and decentralization of or economic, financial and political power - is called for.

MARTIN R., PIKE A., TYLER P. and GARDINER B. [Abstract text continues]

MARTIN R., PIKE A., TYLER P. et GARDINER B. Un rééquilibrage de l'économie du R-U: vers un nouveau modèle de politique?, *Regional Studies*. Il serait dans les intentions du gouvernement du R-U au pouvoir de rééquilibrer son économie sur le plan géographique, afin de créer une 'force motrice économique septentrionale' pour rivaliser celle de Londres et du Sud-Est. Le déséquilibre constitue un problème de longue date que 90 ans de politique régionale n'ont pas réussi à résoudre. Cet article affirme que le caractère bien enraciné du déséquilibre géographique du R-U provient en partie du caractère centralisé du système national d'économie politique, et qu'il faudrait une mutation audacieuse et radicale de cette économie politique-là, fondée sur la déconcentration et la décentralisation du pouvoir économique, financier et politique.

MARTIN R., PIKE A., TYLER P. und GARDINER B. Änderung des räumlichen Gleichgewichts der britischen Wirtschaft: auf dem Weg zu einem neuen Politikmodell?, *Regional Studies*. Die derzeitige britische Regierung hat angekündigt, dass sie das räumliche Gleichgewicht der Volkswirtschaft ändern und ein 'nördliches Kraftzentrum' schaffen will, das mit den Zentren in London und dem Südosten konkurriert. In der Tat ist dieses Ungleichgewicht seit langem ein Problem, das auch nach 90 Jahren Regionalpolitik nicht gelöst wurde. In diesem Beitrag wird argumentiert, dass das festgefahrene räumliche Ungleichgewicht Großbritanniens zum Teil auf das zentralisierte Wesen der Volkswirtschaft zurückzuführen ist und dass eine kühne und radikale Veränderung dieser Volkswirtschaft – auf der Grundlage einer Devolution und Dezentralisierung der wirtschaftlichen, finanziellen und politischen Macht – geboten ist.

MARTIN R., PIKE A., TYLER P. y GARDINER B. Cambios en el equilibrio espacial de la economía británica: ¿hacia un nuevo modelo político?, *Regional Studies*. El actual Gobierno británico ha anunciado su intención de reequilibrar espacialmente la economía nacional para crear una 'potencia septentrional' que pueda competir con la de Londres y la de la región sudeste. Este desequilibrio es de hecho un problema muy antiguo que la política regional no ha podido solucionar en los últimos 90 años. En este artículo argumentamos que la naturaleza bien arraigada del desequilibrio espacial en el Reino Unido procede en parte de la centralización de la economía política nacional, y que es preciso un cambio valiente y radical de la economía política, basado en un traspaso de competencias y una descentralización del poder económico, financiero y político.

Spatial imbalance

Regional policy

National political economy

Devolution

Decentralization

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Déséquilibre géographique

Politique régionale

Système national d'économie politique

Déconcentration

Décentralisation

Räumliches Ungleichgewicht

Regionalpolitik

Nationale Volkswirtschaft

Devolution

Dezentralisierung

Desequilibrio espacial

Política regional

Economía política nacional

Traspaso de competencias

Descentralización

JEL classifications:

O18

R11

R58

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Notes

1. The issue of spatial economic rebalancing is not unique to the UK, of course. It has become a topic of academic and political concern in several other countries – from China to Chile to the European Union – where uneven regional development pose problems for economic, financial and social stability.
2. Space does not permit a detailed historical exegesis and evaluation of British regional policy here, and what follows is intended simply to point up the main continuities and shifts in policy that have occurred over the past 90 years. The key message to be conveyed here is that despite this long development, and the different

variants policies that have been assumed over this time, their overall impact on spatially rebalancing the economy was relatively limited.

3. The retrenchment in spending on regional policy actually began in 1976 as part of public spending cuts imposed by the then Labour government in response to conditions required by the IMF in return for its financial support to the UK economy to enable it to avoid a national currency crisis. The cuts were continued under the Thatcher administration that followed in 1979.

4. The term used was 'endogenous', and indeed more than once appeal was made by the government to its commitment to that branch of economics known as 'endogenous growth theory'. But the policy was as much, if more, about charging the regional development agencies to develop and harness the indigenous resources of the regions, hence the claim that this new, 'third generation' regional policy model was to be 'bottom-up' rather than 'top down' (BALLS et al., [2003](#)).

5. Examples of such frameworks include the federal-state joint task 'Improvement of Regional Economic Structure' (Germany), the standing Spatial Development Coordination Conference (Austria), and the federal-canton coordination functions of the State Secretariat for Economic Affairs (Switzerland).

6. BBC News (5 November 1998).

7. Specifically, 81 (in full or in part) of Heseltine's 89 recommendations.

8. In 2012, the coalition government established a national Green Investment Bank (GIB), with publicly funded capitalisation of £3.8 billion, with a remit to invest in UK-based green infrastructure in energy efficiency, waste and bioenergy, and offshore wind. The chancellor of the exchequer has now announced his intention to privatize the GIB (along with several other public assets) to raise monies to reduce the national deficit, a move that has attracted considerable criticism, including from within government itself (HARVEY, [2015](#)).

9. The German KfW is a state-owned bank with various functions, but its two main activities are financing housing and environmental projects, and providing funds for SMEs. It covers over 90% of its borrowing needs in the capital markets, mainly through bonds guaranteed by the national government. This allows KfW to raise funds under advantageous conditions. Its exemption from having to pay corporate taxes due to its legal status as a public agency and unremunerated equity provided by its public

shareholders allow KfW to provide loans for purposes prescribed by the KfW at lower rates than commercial banks. KfW is not allowed to compete with commercial banks, but it facilitates their business in areas within its mandate.

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