Measuring Regional Success Post-Brexit: The Need for New Measures

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One of the key underexplored aspects of Brexit is the way in which it took place against a backdrop of sharp regional differences across the UK and the fact that there is not one system of governance in UK but multiple ones. In many ways, the Brexit vote has shone a harsh light on something that academics and practitioners have known for years: regional differences matter. In the West Midlands, almost 60% of votes were to leave the EU. In London, almost 60% of votes were to remain. Indeed, some have argued that the vote should be seen as the "revenge of places that don't matter"[1]. This has occurred in spite of the fact that EU structural funding has been concentrated in many of these regions.

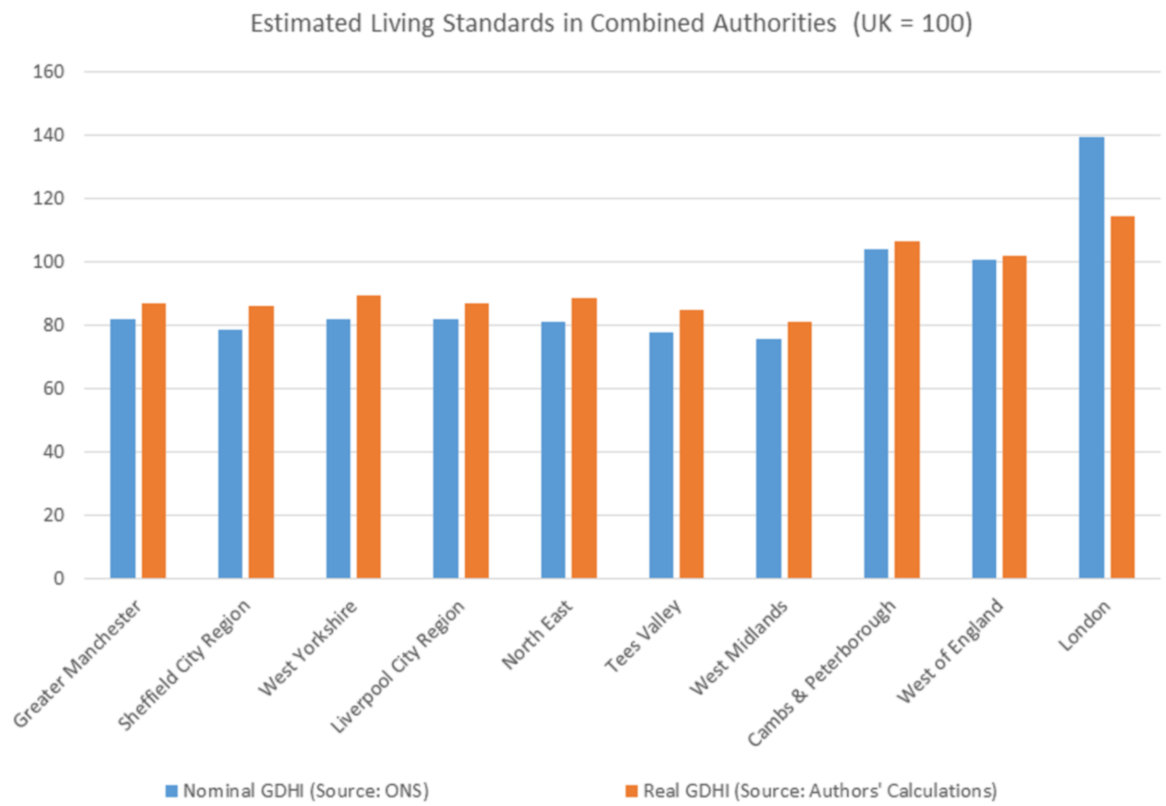
An upcoming book by Centre Director Professor De Ruyter and myself explores many of these issues in more detail[2]. We consider what place-based and people-focussed policy responses might be optimal for dealing with many of these underlying issues laid bare by the Brexit vote. A key factor in all of this, and which is particularly pertinent in light of government plans to replace European structural funding with a proposed "Shared Prosperity Fund" is how we can quantify what success and failure look like.

Our research highlights that measures traditionally used in the allocation of regional funding (especially measures of regional economic output) are not fit for purpose. Particularly egregious is the ongoing use of GVA per capita in spite of the fact that the ONS[3] and Gripaios and Bishop[4], amongst others, have demonstrated that it is not a measure of either regional productivity or regional wellbeing. Commuting and demographics both grossly distort GVA per capita when measured on a sub-regional level: GVA per capita is higher in Islington (represented by the constituencies of Jeremy Corbyn and Emily Thornberry) than in Kensington and Chelsea.

Similarly, demographics alone can account for 17.8% of the disparity in GVA per head between London and the South West. It is thus unsurprising that GVA per capita is almost uncorrelated with unemployment at the local authority level. We therefore propose a number of existing measures that illustrate interesting aspects of relative regional prosperity. The forthcoming book then demonstrates that *all* existing monetary measures (whether of wages, household incomes or gross value added) are flawed measures of living standards and real economic output because they fail to take account of the fact that regional prices differ substantially across the UK. This includes the income portion of the vaunted Index of Multiple Deprivation.

This effect is easy to see: according to the Good Pub Guide, a pint of beer is almost one-third more expensive in London than in Yorkshire. As such, a Londoner needs to be earning considerably more in order to consume the same quantity of beer as his or her counterpart in Yorkshire. It's not just beer: a wide variety of goods and services are more expensive in London and the South than the rest of the country. The cost of renting or buying a house in London is vastly different to that in Scotland.

Using a variety of official data, we construct a series of different regional price indices that are suited to different purposes and show that some of the gaps between different parts of the country are narrower than hitherto believed and that median real wages differ relatively little across the country. We also show, however, that the relative positions of different regions change dramatically and that gaps in living standards remain substantial.



As can be seen from the above graph, the gap between London and the rest narrows dramatically. Moreover, the poorest region is not in the North: rather it lies in the industrial heartlands of the Midlands (although not shown, the East Midlands conurbation of Nottingham ranks similarly). It is perhaps no accident that the "missing middle" of the UK voted most strongly for Brexit. In contrast, our figures show Scotland overtaking the South East of England in terms of productivity (and only marginally behind in terms of incomes – probably due to the fact that so many in the South East commute to London to take advantage of the capital's higher nominal salaries).

Finally, we consider what national and regional policymakers (and other stakeholders) can and should do in response to this. Clearly getting regional funding mechanisms "right" post-Brexit is a key element. The Shared Prosperity Fund will need careful design to ensure that it targets the right regions. Indeed, our work tentatively suggests that successful devolution may play a role in fostering inclusive economic growth. As pointed out in Gill Bentley's previous blog post and elsewhere[5], successful policies to foster growth that benefits the entire country must be aware of the spatial economic context rather than being "space-blind".

1. Rodríguez-Pose, A., *Commentary: The revenge of the places that don't matter (and what to do about it).* Cambridge Journal of Regions, Economy and Society, 2018. **11**(1): p.189-209
2. Hearne, D. and A. De Ruyter, *Manufacturing Regional Success after Brexit*. Forthcoming, Bradford: Emerald.
3. Dunnell, K., *National Statistician's article: measuring regional economic performance.* Economics & Labour Market Review, 2009. **3**(1): p. 18-30.
4. Gripaios, P. and P. Bishop, *Objective One Funding in the UK: A Critical Assessment.* Regional Studies, 2006. **40**(8): p. 937-951.
5. Bentley G, Pugalis L and Shutt J (2017) Leadership and systems of governance: the constraints on the scope for leadership of place-based development in sub-national territories. *Regional Studies* 51:2 pp 194-209