Centre for Brexit Studies

Blog Post

The Proposed Post-Brexit Shared Prosperity Fund: Some Thoughts

By Professor Alex de Ruyter and David Hearne, Centre for Brexit Studies

30th August 2018

The Shared Prosperity Fund is expected to replace EU Structural and Investment Funds (ESIF) in the UK. ESIF funds come in two parts: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). A majority of funds are targeted at regions whose GDP per capita (calculated from GVA per capita) is below 75% of the European average, of which the UK has two – Cornwall & Scilly and West Wales & The Valleys[1]. Additionally, so-called "transition" regions with GDP per capita of under 90% of the EU average have greater flexibility in terms of how they can spend such monies and, in practice, applications under the schemes are often looked upon more favourably than many "more developed" regions.

Our forthcoming book, examines this metric in detail and suggests better alternatives. GVA/capita is a flawed metric and the Shared Prosperity Fund offers the chance to move to something better (irrespective of what happens with Brexit – these themes are fundamental). As such, our book is split into three parts:

1. Thinking inside the box: A review of work already done critiquing GVA/capita. We show it is a nonsense measure because it divides the amount produced by people *working* in a region by the number *living* in a region. In the West Midlands, the West Midlands Combined Authority (coterminous with the old West Midlands metropolitan county) attracts commuters and this artificially inflates its GVA/capita. London experiences the same phenomenon writ large. Better measures already produced by the ONS are:

a) GDHI/Capita (total income per capita of *residents*)

b) GVA/Hour (the amount produced per hour worked – i.e. productivity)

2. Thinking outside the box: Even these official data are not appropriate when examining regional disparities. Why? Prices differ across the UK. International comparisons (including within the EU) take this into account: proper regional measures should do the same. After a discussion of how best to do this, we show that:

a) After adjusting for price differences, incomes per person are actually lower in many parts of the Midlands than in the North. For example, incomes in the West Midlands Combined Authority (WMCA) are considerably lower than *any* other comparable city-region using our data. In fact, if this were the eligibility criteria used, the WMCA would receive the most funding (by a margin) of any NUTS2 region in the UK, rather than being treated as a "more developed" region as it currently is.

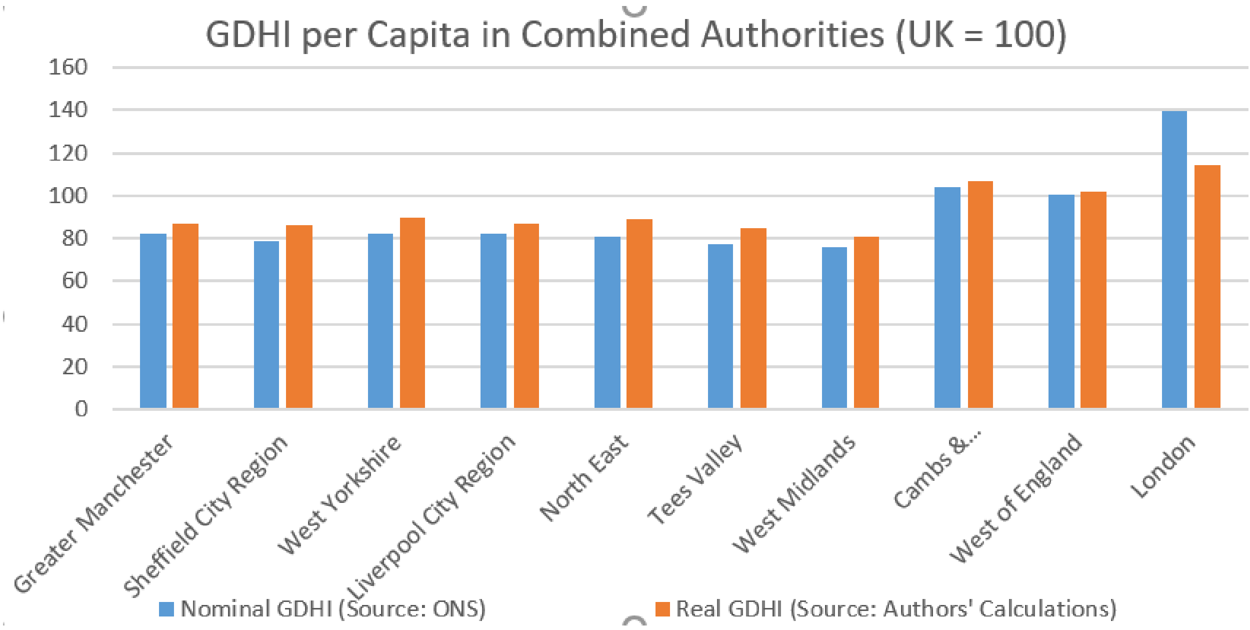
b) London's towering productivity advantage over other regions is much smaller than hitherto believed. By this measure, workers in the North East and North West don't perform badly. Some areas exhibit a substantial disparity between productivity and income, which is driven by:

(i) Low employment levels of residents

(ii) High-productivity, high-skill individuals commuting into the city-region from surrounding areas (think Warwick, Lichfield etc.)

3. Finally, a consideration of the policy ramifications of the above. Specifically,

a) The need for a targeted "social fund" to – at a minimum – replace the ESF. This could include measures that address the issues that cause (and are associated with) poverty and low incomes with a particular focus on employability and precarious employment or underemployment.



b) The need to redirect investment funding away from London and the Golden Triangle (London-Cambridge-Oxford). Traditionally, London has been seen as hyper-successful and therefore investment in publically-funded infrastructure has responded to perceived economic need. Our figures fundamentally undermine this, suggesting that other regions are underfunded relative to London. Specifically, we criticise thinking based on *nominal* productivity differences when *real* productivity differences are what should be of interest.

Per capita funding (£) for transport and education, UK Government Office Regions (2016-17)[i]

Government Office Region	Transport	Education
North East	291	1,272
North West	370	1,276
Yorkshire and The Humber	335	1,280
East Midlands	220	1,244
West Midlands	314	1,286
East	333	1,266
London	944	1,605
South East	370	1,205
South West	305	1,190
Scotland	620	1,512
Wales	377	1,345
Northern Ireland	307	1,459

c) Finally, we argue that greater devolution of powers is a necessary precondition to solve many of the issues raised by Brexit. The Brexit vote was highly region-specific and our response to it must go beyond simply doling out money to giving regions real authority over how to spend it (as Scotland does). Scotland is a useful case-study: whilst productivity in the rest of the UK has stagnated in the past decade, Scotland's onshore economy has enjoyed continued growth. Given that our figures show that in real terms Scotland is more productive than the South East of England, there is a strong argument to be made in favour of devolving greater powers to the English regions.

1. European Commission. *Is My Region Covered?* 2014; Available from: http://ec.europa.eu/regional_policy/en/policy/how/is-my-region-covered/.

[i] HM Treasury (2018): Country and Regional Analysis, accessed on August 17th 2018 at: https://www.gov.uk/government/statistics/country-and-regional-analysis-2017 see '*Country and Regional Analysis 2017: A Tables*'.