Whither the region?

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The Brexit vote proved a profound shock to the political system, with "Remainers" and "Leavers" alike expecting a 'Remain' victory[1]. Although initial research focussed on the so-called "left behind"[2], it quickly became clear that focussing solely on the characteristics of individuals was missing an important element.

In particular, one of the many things that became quite clear was that there were obvious regional differences in the vote[3]. This is the case even at an extremely local level where local areas voted similarly even after controlling for demographic factors[4].

It's no surprise, therefore, to find that regional issues – long ignored by the UK's body politic – have suddenly found themselves propelled up the political agenda. The largely rhetorical "northern powerhouse" gave way first to an "industrial strategy" and now to a "levelling up" agenda that is likely to be at least somewhat more concrete (if only for reasons of political expediency).

It was in this vein that on Monday, I had the pleasure to watch this fascinating talk on the likely regional issues raised by the current pandemic. Yet whilst many of us consider it axiomatic that regional issues should matter, this is by no means universal. There remains an active debate over whether policies should be 'place neutral'[5] or 'place based'[6].

It is therefore worth considering precisely *why* regional differences matter, as it has profound consequences for scholarship and practice alike. In particular, I contend that it is the presence of imperfect mobility that (almost exclusively) drives the need for the study of regional issues. Naturally, this is also true at the supranational level: if individuals were perfectly mobile then it would be of little relevance that Somalia is poorer than Sweden.

In the real world, at the supranational level barriers to mobility (legal, linguistic, cultural etc.) are formidably high. Whilst lower than this, the barriers to interregional mobility also remain quite profound – a fact that can be all too often ignored in economic modelling and by policymakers.

Take the example of childcare. For many families the cost of this (for infants) can approach or exceed their income from a job. The presence of family members able to give informal care (typically grandparents) can therefore be worth thousands of pounds. That's a major barrier to labour mobility.

For those with school-age children, the barriers are different but no less significant. Reticence over moving schools is natural, doubly so if children are approaching exams (for which different schools often study different syllabi). At the other end of the spectrum, many adults have caring responsibilities for elderly relatives.

Moreover, most working adults have specific labour market ties in a certain area and changing employers is not costless in terms of redundancy rights. This is before we begin to touch on questions of culture and non-pecuniary incentives to live (and work) in a certain region. This can be especially true for those with migrant backgrounds where there are issues of religion (where can I worship nearby?), ethnicity (fear of racism or ostracism from a new community) and language (especially prevalent for some older family members).

Ultimately, uprooting one's family from a community is hardly welfare neutral and, as a result, place matters. What is less clear is how we should best understand and address these differences between places. Returning to our opening theme – how does this impact the political unhappiness that has

been variously termed “the geography of discontent”[7], the “revenge of places that don’t matter”[8] and those regions that have been “left behind”?

Is this a reaction to differences in regional living standards – in which case existing measures are clearly only capturing *part* of the issue. One measure widely used at a national level is GDP per capita – the amount of economic output produced per person, valued at market rates – where it is used as a proxy for all sorts of things, not least living standards. When applied on a regional level, however, things are much less clear cut for myriad reasons.

Where nationally, GDP typically (but not always – see Ireland and Luxembourg for counterexamples) accords quite closely with gross national income, for regions the association is much weaker[9, 10]. Another important question is how we treat prices, which has important and wide-ranging ramifications.

Commuting is an obvious distortion, but there are also life-cycle issues at play (as well as more general demographic issues). More broadly, we know that non-wage incomes differ dramatically from place to place, but is this a regional problem per se? After all, there is nothing to stop someone in the North East purchasing shares in a company that generates most of its value added in London and thereby getting the benefit of any profits.

What of differing consumption patterns between regions and questions of fairness in the allocation of non-market resources? We know that there are large differences in the provision of non-market resources and that these are remarkably persistent over time[11].

Perhaps, however, at issue is not so much direct differences in wage incomes and consumption as much as differences in access to opportunity. Most individuals develop a skill set that is unique – or at least most valuable – to certain industries.

When individuals are not easily mobile, they are vulnerable to local industrial change. The ramifications might be unemployment, but they might also be a movement from a relatively affluent part of the labour force to one in which work is less skilled, lower paid and more precarious. These are the places in which we should look in order to understand the “electric shock” that the political establishment received in 2016.

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