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SPERI British Political Economy Brief No. 26

Scotland and the North of England

*Sub-national economic
development and the UK's
finance-led growth model.*

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Introduction

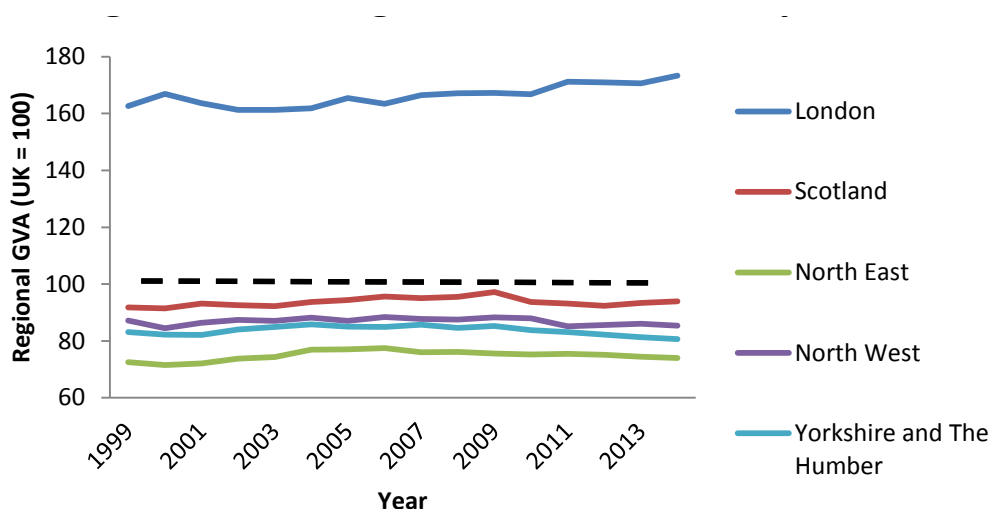
The Scottish parliament has competence over a relatively wide range of policy areas. In contrast, the North of England has experienced only limited forms of devolution. Despite these institutional differences, the economies of Scotland and the North of England - defined in this brief as the North East, North West and Yorkshire and Humber - share a number of important structural similarities. Historically, both have supported large industrial centres and both have experienced low rates of economic growth relative to London and the South East. This policy briefing examines the extent to which devolution has precipitated economic divergence between Scotland and the North of England since 1999. The briefing argues that both Scotland and the North of England have experienced similar sectoral shifts throughout this period, exemplified by a continuing decline in the manufacturing sector and relatively subdued growth in the financial sector relative to London and the South East. Since 2008, policymakers within Westminster have committed to 'rebalancing' the UK economy, both geographically towards 'the North' and sectorally away from finance and towards tradeable goods sectors. The brief argues that in both Scotland and the North of England, this 'rebalancing' has not taken place. Both regions are embedded within the UK's dysfunctional finance-led growth model which means both face similar structural challenges. This raises a number of important questions for policymakers who seek to advance sustainable patterns of economic growth in both Scotland and the North of England.

Background

- The Scottish parliament was 'reconvened' in 1999 after many decades of campaigning by political parties and by civil society groups within Scotland. The parliament was granted control over a range of 'devolved' policymaking areas, including education and training, health, local government and economic development.
- In 2016, the Scottish parliament's powers were extended further still as a result of the Scotland Act (2016), although control over key economic policy levers remain 'reserved' to Westminster.
- In contrast, the North of England has experienced only very limited devolution especially in terms of economic powers. This devolutionary process has been largely driven by Westminster elites rather than by political pressure from within the regions.
- However, despite these institutional differences, the economies of both Scotland and the North of England share a number of important structural features. Both have traditionally contained large industrial centres and both have been shaped politically by rapid de-industrialisation processes since the 1980s.
- In addition, both Scotland and the North of England are embedded within the UK's finance-led growth model, dominated by a distinct constellation of power concentrated within London involving the Treasury, the City of London and the Bank of England.
- Marked economic disparities between Scotland and the North of England and London and the South East therefore endure.

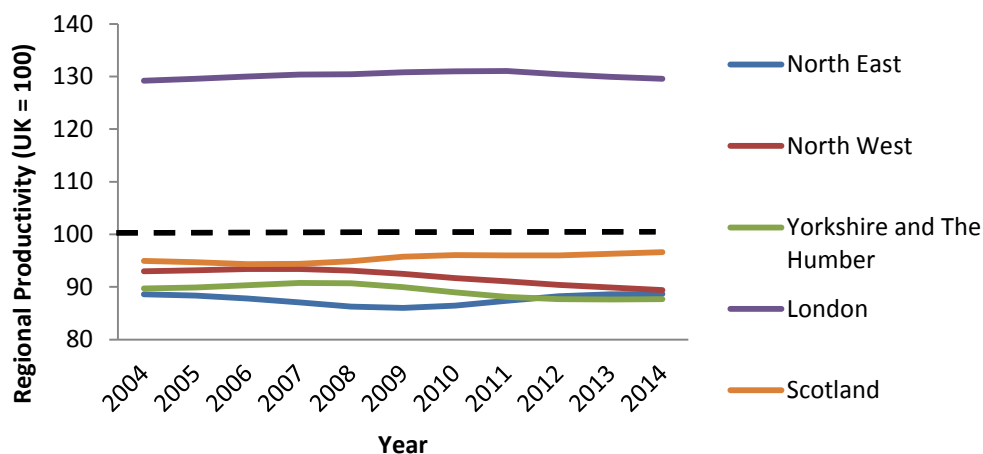
- For example, as outlined in Figure 1, economic output in both Scotland and the North of England has remained consistently below the UK average since 1999, whilst London has consistently generated economic output on average 60 per cent higher than the UK average.
- As outlined in Figure 2, productivity has also consistently been higher in London. The capital consistently records a productivity rate around 30 per cent higher than the UK average. In contrast, both Scotland and the North of England have consistently recorded productivity rates below the national average.

Figure 1. UK Regional Economic Output



Source: ONS Regional GVA

Figure 2. UK Regional Productivity



Source: ONS Labour Productivity

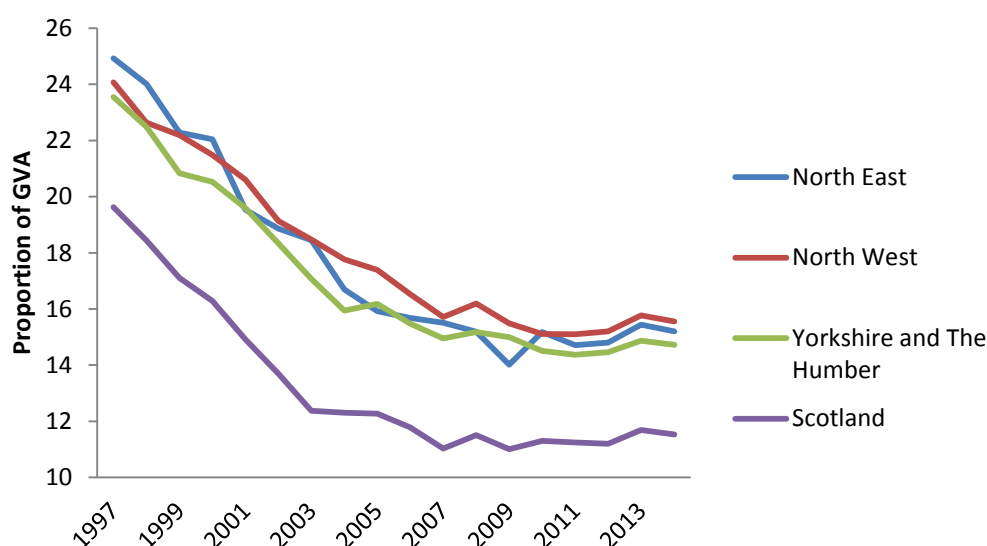
- Since devolution in 1999, the gap between the economic performance of Scotland and the North of England has not improved relative to London.

- This is despite the fact that since 2008 'rebalancing' the UK economy both sectorally and geographically has been a stated objective of Westminster policymakers.
- This brief focuses on the manufacturing and financial sectors. It argues that despite differences in regional economic governance institutions, Scotland and the North of England share important structural features. Both regions therefore face similar economic challenges in the years ahead. These give rise to a number of questions for policymakers in Scotland, the North of England and Westminster respectively.

Evidence

Manufacturing output and jobs in Scotland and the North of England since devolution

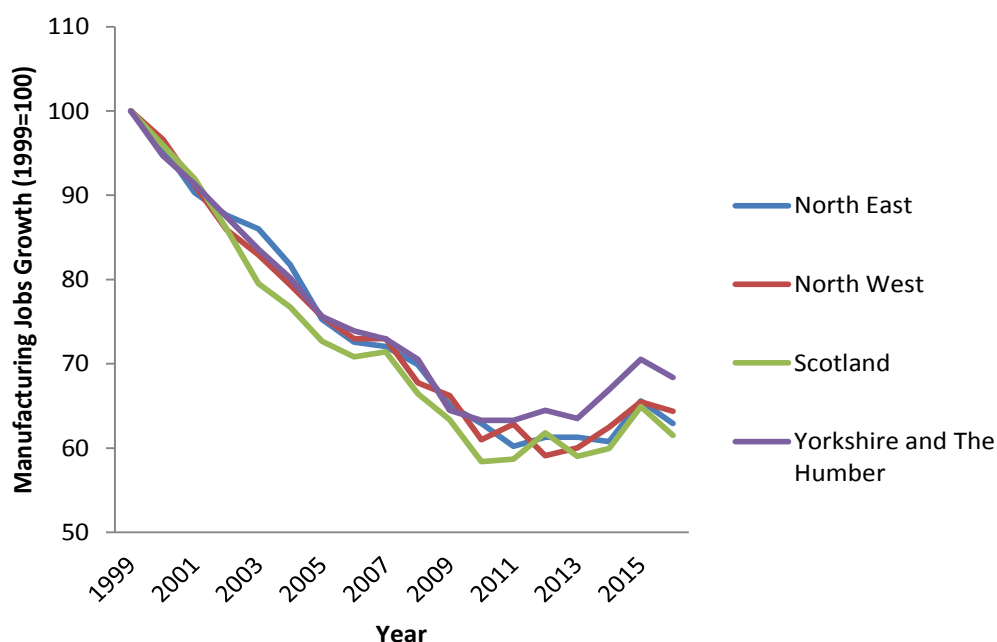
Figure 3. Manufacturing as a proportion of Regional Output



Source: See Annex.

- Since 1999, manufacturing has declined as a proportion of regional output across both Scotland and the North of England.
- Manufacturing represented 17 per cent of Scotland's regional economic output in 1999. By 2007, it had slumped to 11 per cent and remained at this level until 2014.
- In the North of England, manufacturing has followed a similar trajectory. In 1999, manufacturing represented 25 per cent of regional output across the three Northern regions on average. By 2007, this had slumped to 15 per cent. The figure then flat-lined at this level until 2014.
- Despite this downwards trajectory, it is notable that manufacturing has accounted for a larger proportion of output in the North of England than in Scotland over the period since devolution. On average, manufacturing has accounted for 4.2 per cent more output in the North of England between 1999 and 2014.

Figure 4. Regional Manufacturing Employment Decline



Source: See Annex.

- This story of manufacturing decline is paralleled by a strong downwards trend in jobs growth across both Scotland and the North of England. Between 1999 and 2011, both regions experienced a continued drop in manufacturing jobs.
- Whereas Scotland sustained 322,000 manufacturing jobs in 1999, by 2016 this had declined by 39 per cent to 198,000.
- Across the North of England, similar trends are in evidence. For example, whereas the North West sustained 533,000 jobs in 1999, by 2016 this had declined by 36 per cent to 343,000. Similar percentage falls are in evidence across the North East (37 per cent) and Yorkshire and Humber (32 per cent).
- However, as Figure 4 shows, between 2011 and 2016 this downwards trend halted and has (partially) gone into reverse. Across Scotland and the North of England, manufacturing employment has grown on average by 5 per cent throughout this period, albeit from a relatively low base.
- However, as outlined in previous SPERI research (Berry, 2016), this (small) uptake in manufacturing employment (from a low base) has been paralleled by consistently low levels of output growth across the manufacturing sector. This suggests that manufacturing job growth might have been skewed towards low productivity sectors.

Figure 5. Manufacturing net job creation in sectors with high/low productivity growth



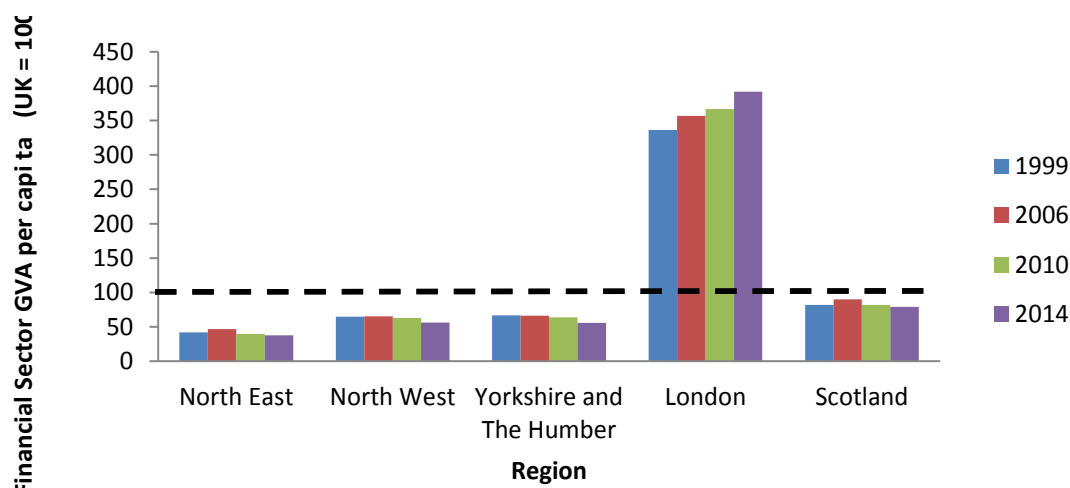
Source: See Annex.

- Figure 5 shows net job creation across 30 manufacturing sub-sectors. In each case, a sector is categorised as a 'high productivity growth' sector if its output increased between 2012 and 2015. Conversely a sector is categorised as a 'low productivity growth' sector if its productivity rate declined since 2012.
- Of the Northern regions, only the North West experienced an absolute decline in manufacturing jobs. In contrast, Scotland, the North East and Yorkshire and the Humber all saw an increase in the number of manufacturing jobs between 2011 and 2015.
- However, in both the North East and Yorkshire and the Humber, this jobs growth was driven by sectors which had experienced substantial productivity increases since 2012. In the North East, 97 per cent of net job creation in manufacturing was driven by 'high productivity' sectors. In Yorkshire and the Humber, 48 per cent of net job creation was concentrated in 'high productivity' sectors.
- In the North East, the two manufacturing sub-sectors which created most jobs were coke and refined petroleum and wood, paper and printing. These sub-sectors each recorded productivity increases of 3 per cent and 7 per cent respectively since 2012. In Yorkshire and the Humber, the two manufacturing sub-sectors which created most jobs were metals and metal products and wood, paper and printing. These sub-sectors each recorded productivity increases of 2 per cent and 7 per cent respectively since 2012.
- In contrast, Scotland's manufacturing sub-sector with the highest job growth was machinery and equipment. However, this sector experienced a decline in its productivity of 13 per cent since 2012. However, Scotland also recorded strong jobs growth in transport, which recorded productivity increases of 10 per cent since 2012.

- These figures suggest that despite similar ‘headline’ stories on manufacturing employment and output levels across Scotland and the North of England, the sectoral picture is actually quite mixed and variegated. Further research into the composition of manufacturing sub-sectors across Scotland and the North of England would provide a better picture of the uneven development of manufacturing capacity across these regions.
- In addition, it is important to note that the graph refers to sectors which experienced productivity growth since 2012. This is not to say that these are high productivity sectors in absolute terms. However, the data does suggest that recent manufacturing job creation in Scotland has disproportionately been skewed towards sectors with low productivity growth since 2012. If these trends continue, this could store-up problems for Scotland’s manufacturing base in the future.

The financial sector, Scotland and the North of England since devolution

Figure 6. Regional Share of UK Finance Output

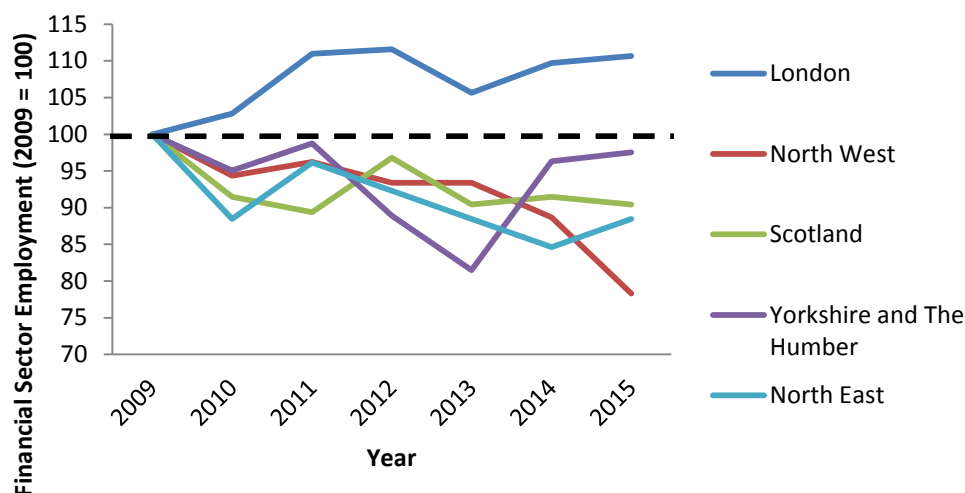


Source: See Annex.

- Since 1999, financial sector output in absolute terms and in relation to total output has increased across the UK. However, the growing size of the financial sector has not benefited all regions equally.
- In Scotland in 1999, the finance sector’s GVA per capita amounted to 81 per cent of the UK average. By 2006, this had increased to 90 per cent, as financial market activity within Scotland caught-up with the UK average. However, since the 2008 crash, Scotland has seen its financial output return to below its 1999 peak relative to the UK average at 79 per cent.
- Despite the increase in the size of the financial services sector, the North of England has not increased its share of UK financial market activity substantially. In 1999, financial sector output in the North represented 57 per cent compared to the UK average. However, by 2014 this had decreased to 49 per cent of the UK average.

- In contrast, London - during both the boom years of the 2000s and in the post-2008 context - has consistently increased its share of UK financial services sector output. In 1999, London's financial output stood at 336 per cent the UK average. Year-on-year London's share of financial sector output has increased, such that by 2014 London enjoyed financial sector GVA per capita 391 per cent higher than the UK average.

Figure 7. Financial Sector Employment 2009-2015



Source: See Annex.

- This trend in financial sector output is reflected in the uneven development of financial sector employment across the regions in question. Since 1999, London has consistently produced more jobs in financial services than Scotland and the North of England, both in absolute terms and as a proportion of the regional workforce.
- Post-crisis, this trend has been particularly evident. Financial services sector employment has declined across Scotland and the North of England. In the North West, finance jobs decreased by over 20 per cent, from 106,000 in 2009 to 83,000 in 2015. In Scotland, jobs in financial services declined by nearly 10 per cent, from 94,000 in 2009 to 85,000 in 2015.
- In contrast, London has increased its share of financial sector jobs over this same period. Between 2009 and 2015, finance jobs increased by 10 per cent, from 319,000 in 2009 to 353,000 in 2015.

Analysis

- The North-South divide has long been a preoccupation of policymakers at Westminster and further afield. Devolution - first to Scotland and now to the North of England - has long been identified as a key mechanism through which regional imbalances might be redressed.
- However, the evidence presented in this brief suggests that devolution to the Scottish parliament has not allowed Scotland to escape broader processes of structural change within the UK economy since 1999.
- Between 1999 and 2015, manufacturing jobs and output relative to other sectors have followed a similar downwards trajectory across both Scotland and the North of England.
- Since 2008, attempts to 'rebalance' the UK economy have not significantly altered this basic trajectory. Although manufacturing jobs have increased by a small amount (from a very low base) since 2011, this has not been accompanied by an upsurge in productivity growth, suggesting that many of these jobs have been concentrated in low productivity sub-sectors.
- The evidence suggests that there is significant regional divergence in this regard. Whereas manufacturing jobs growth in the North East and Yorkshire and the Humber have been concentrated in sectors whose productivity growth has increased since 2012, in Scotland job creation in manufacturing has been driven by sectors whose productivity has declined over this same period. This could represent a damaging trend if policy action is not taken to ensure that manufacturing employment growth is concentrated in sectors with positive productivity growth.
- Since 1999, the financial services sector has grown rapidly in size. However, in Scotland financial sector output relative to the UK average is now lower than it was in 1999. In the North of England, the trend is similar, with less financial sector output relative to the UK average compared to 1999.
- Since 2009, jobs growth in the financial sector has also been skewed towards London. Whereas Scotland and the North of England all experienced an absolute decline in their share of financial sector employment throughout this period, London increased the size of its financial sector workforce by 10 per cent.
- The evidence therefore suggests that UK government attempts to 'rebalance' the UK economy both sectorally and geographically since 2010 have not been successful. Both Scotland and the North of England have lost-out as a result of this policy failure.
- Rather than fixating on the limited policy competences of the Scottish parliament, then, it is more instructive to view Scotland as embedded within the UK's dysfunctional finance-led growth model. In this regard, Scotland shares much in common with the North of England and faces similar structural impediments to delivering sustainable growth in the future.

Conclusion

Scottish devolution was initially advocated on both democratic and economic grounds. A devolved parliament, it was claimed, would allow Scottish policymakers to tailor economic policy to Scotland's specific needs and to thereby boost economic output and employment. The evidence presented in this brief suggests that the Scottish parliament's powers have not allowed it to significantly reorient Scotland's growth model or to escape broader processes of structural change in the UK economy over this period. Manufacturing employment has declined rapidly since 1999 whilst manufacturing output as a share of the regional total has also slumped to historic lows. Financial sector growth - in terms of both output and employment - has been concentrated in and around the City of London. Despite its distinct policymaking powers, Scotland's economic experience since devolution closely mirrors that of the North of England. Both regions have experienced similar sectoral shifts as a result of structural changes to the UK economy. As such, both Scotland and the North of England are embedded within the UK's dysfunctional finance-led growth model, dominated by a distinctive complex of institutions within the capital city oriented towards consolidating financialised patterns of growth. Challenging and re-orienting this growth model is a necessary condition of rebalancing the UK economy and of delivering sustainable growth in the future for both Scotland and the North of England.

Annex

For data enquiries, please contact the author.

Regional Manufacturing Employment

	North East	North West	Scotland	Yorkshire and The Humber
1999	186,000	533,000	322,000	414,000
2000	178,000	515,000	309,000	392,000
2001	168,000	486,000	296,000	378,000
2002	163,000	458,000	277,000	362,000
2003	160,000	442,000	256,000	346,000
2004	152,000	423,000	247,000	332,000
2005	140,000	403,000	234,000	313,000
2006	135,000	389,000	228,000	306,000
2007	134,000	389,000	230,000	302,000
2008	130,000	361,000	214,000	292,000
2009	121,000	353,000	204,000	267,000
2010	117,000	325,000	188,000	262,000
2011	112,000	335,000	189,000	262,000
2012	114,000	315,000	199,000	267,000
2013	114,000	320,000	190,000	263,000
2014	113,000	333,000	193,000	277,000
2015	122,000	349,000	209,000	292,000
2016	117,000	343,000	198,000	283,000

Source: ONS Workforce Jobs

Manufacturing as a proportion of regional output

	1997	1998	1999	2000	2001	2002	2003	2004	2005
North East	6,231	6,206	5,954	6,083	5,645	5,853	6,120	5,993	6,043
North East	24,997	25,843	26,722	27,595	28,895	31,032	33,167	35,907	37,953
North West	18,641	18,497	18,912	18,661	19,019	18,784	19,237	19,720	20,127
North West	77,460	81,734	85,214	86,852	92,289	98,157	104,110	110,980	115,728
Yorkshire and The Humber	13,213	13,198	12,373	12,691	12,622	12,747	12,781	12,743	13,588
Yorkshire and The Humber	56,117	58,695	59,402	61,849	64,439	69,526	74,889	79,922	83,975
Scotland	12,613	12,415	11,493	11,453	11,116	10,640	10,158	10,784	11,455
Scotland	64,281	67,327	67,183	70,312	74,497	77,674	82,092	87,596	93,328
	2006	2007	2008	2009	2010	2011	2012	2013	2014
North East	6,291	6,423	6,424	5,806	6,462	6,441	6,637	7,134	7,250
North East	40,132	41,400	42,293	41,418	42,561	43,792	44,824	46,197	47,702
North West	20,457	20,318	21,327	20,335	20,386	20,279	21,142	22,922	23,316
North West	123,779	129,314	131,720	131,256	134,908	134,316	139,042	145,297	149,869
Yorkshire and The Humber	13,677	14,062	14,439	14,231	13,945	14,104	14,481	15,328	15,674
Yorkshire and The Humber	88,391	94,051	95,150	94,863	96,140	98,185	100,169	103,094	106,467
Scotland	11,718	11,528	12,370	11,913	12,174	12,400	12,618	13,810	14,247
Scotland	99,462	104,497	107,497	108,189	107,653	110,285	112,594	118,135	123,543

Source: ONS Regional GVA

Manufacturing Net Job Creation (2011 - 2015)

Industry	Great Britain	North East	North West	Scotland	Yorkshire The Humber
10 : Manufacture of food products	16000	0	-2000	-1000	4000
11 : Manufacture of beverages	2,000	750	0	1,000	2,000
12 : Manufacture of tobacco products	-400	-150	40	0	-10
13 : Manufacture of textiles	-4,000	500	2,000	-1,500	-3,000
14 : Manufacture of wearing apparel	1,000	600	-2,750	0	-2,250
15 : Manufacture of leather and related products	0	-400	0	0	65
16 : Manufacture of wood and of products of wood and cork, except furniture	8,000	0	-3,500	-1,000	6,500
17 : Manufacture of paper and paper products	2,000	1,000	3,000	0	-1,000
18 : Printing and reproduction of recorded media	-9,000	1,000	-5,000	-1,500	2,000
19 : Manufacture of coke and refined petroleum products	-1,000	25	-500	1,050	0
20 : Manufacture of chemicals and chemical products	-9,000	2,000	-6,000	0	0
21 : Manufacture of basic pharmaceutical products	-8,000	-1,000	-1,000	-500	0
22 : Manufacture of rubber and plastic products	9,000	1,000	3,000	1,000	1,000
23 : Manufacture of other non-metallic mineral products	-9,000	0	-4,000	0	-2,000
24 : Manufacture of basic metals	-6,000	-2,250	1,000	-1,000	-1,000
25 : Manufacture of fabricated metal products, except machinery and equipment	14,000	0	-3,000	-2,000	4,000
26 : Manufacture of computer, electronic and optical products	-18,000	-1,000	-2,000	0	3,000
27 : Manufacture of electrical equipment	-3,000	1,000	2,000	-1,000	0
28 : Manufacture of machinery and equipment n.e.c.	-9,000	-1,000	-3,000	5,000	2,000
29 : Manufacture of motor vehicles, trailers and semi-trailers	32,000	2,000	4,000	1,500	2,000
30 : Manufacture of other transport equipment	0	-750	0	1,000	-2,250
31 : Manufacture of furniture	4,000	3,000	-1,000	0	0
32 : Other manufacturing	-7,000	2,500	0	0	-2,000
33 : Repair and installation of machinery and equipment	20,000	2,250	1,000	1,000	4,000
Column Total	25,000	10,000	-19,000	0	18,000

Source: Business Register and Employment Survey

Manufacturing Job Creation by Sub-Sector and Productivity (2012 = 100)

	Productivity							Yorkshire	
	Relative to 2012	Great Britain	North East	North West	Scotland	The Humber	Yorkshire	The Humber	
Food, Beverages and Tobacco (10 - 12)	97.8	17600	600	-1960	0	0	5990	5990	
Textiles, wearing apparel & leather (13 - 15)	93.4	-3000	700	-750	-1500	-1500	-5185	-5185	
Wood & paper products & printing (16 - 18)	107.8	1000	2000	-5500	-2500	-2500	7500	7500	
Chemicals & Pharmaceuticals (20 - 21)	104.8	-17000	1000	-7000	-500	-500	0	0	
Rubber & Plastics (22 - 23)	106.7	0	1000	-1000	1000	1000	-1000	-1000	
Basic Metals & metal products (24 - 25)	102.4	8000	-2250	-2000	-3000	-3000	3000	3000	
Computers & electrical equipment (26 - 27)	91.1	-21000	0	0	-1000	-1000	3000	3000	
Machinery & equipment (28)	86.7	-9000	-1000	-3000	5000	5000	2000	2000	
Transport equipment (29 - 30)	110.1	32000	1250	4000	2500	2500	-250	-250	
Coke & Refined Petrol, Other Manufacturing (19, 31 - 33)	103.4	16000	7775	-500	2050	2050	2000	2000	

Source: Business Register and Employment Survey, ONS Labour Productivity

Finance as Share of Regional GVA

Region	Industry	1999	2006	2010	2014
United Kingdom	Financial and insurance activities	50,416	104,245	116,360	132,644
United Kingdom	All industries	861,179	1,261,841	1,397,744	1,612,210
North East	Financial and insurance activities	916	2,046	1,891	2,021
North East	All industries	26,722	40,132	42,561	47,702
North West	Financial and insurance activities	3,772	7,686	8,149	8,208
North West	All industries	85,214	123,779	134,908	149,869
Yorkshire and The Humber	Financial and insurance activities	2,830	5,835	6,200	6,116
Yorkshire and The Humber	All industries	59,402	88,391	96,140	106,467
London	Financial and insurance activities	20,661	46,455	54,773	68,698
London	All industries	167,820	251,765	293,710	364,310
South East	Financial and insurance activities	6,019	10,425	11,520	12,907
South East	All industries	129,315	181,801	205,627	239,698
Scotland	Financial and insurance activities	3,570	7,928	7,977	8,690
Scotland	All industries	67,183	99,462	107,653	123,543

Source: ONS Regional GVA

Financial Sector GVA per Capita per Region

Region	1999	2006	2010	2014
UK Finance	859.10	1713.79	1854.06	2053.42
North East Finance	359.17	801.55	731.00	771.75
North West Finance	556.91	1113.66	1160.84	1150.71
Yorkshire and The Humber Finance	570.99	1136.54	1179.88	1141.04
London Finance	2888.07	6114.25	6794.40	8045.50
South East Finance	756.62	1260.45	1343.01	1454.50
Scotland Finance	703.87	1544.49	1515.91	1625.03

Source: ONS Regional GVA, ONS Annual Population Survey

Financial Sector Employment by Region

	London	North West	Scotland	Yorkshire and The Humber	North East
2009	319,000	106,000	94,000	81,000	26,000
2010	328,000	100,000	86,000	77,000	23,000
2011	354,000	102,000	84,000	80,000	25,000
2012	356,000	99,000	91,000	72,000	24,000
2013	337,000	99,000	85,000	66,000	23,000
2014	350,000	94,000	86,000	78,000	22,000
2015	353,000	83,000	85,000	79,000	23,000

Source: Business Register and Employment Survey



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