Equitable Economic Growth, a Paradox? UK’s North-South Divide

Executive Summary
We explore the reasons for why regional economic growth diverged for the North and the South since the late 1970s, using Garegnani et al. (2019)’s results, we consider whether less productive individual firms or less productive industries are behind the North’s slower growth today. From economic literature, we discuss how agglomeration and network effects create a virtuous cycle that accentuates the divergence, and its potential implications for future policy.

Dividing Regional Growth
Garegnani et al. (2019) divide regional growth into the industry mix component and the region-specific component.
Industry mix: More productive industries located in the region
Region-specific: Individual firms are more productive than their counterparts in the same industry elsewhere.
- The South grew because individual firms were more productive
- London grew because there were more productive industries
- The North:
  - Less productive industries located here because:
    - Relative higher reliance on manufacturing and a smaller service sector
    - Density/relational interaction has affected the North more adversely
  - Past regional policy
  - Agglomeration and network effects
- Intra-industry firms less productive that counterparts elsewhere
- Agglomeration and network effects

Origins of Research
The LSE Growth Commission invited the LSE Student Union’s Economics Society to contribute an article as part of its deliberations for inclusive and sustainable economic growth in the UK. We are grateful to be invited by the LSE’s Economics Society to contribute this minor article on understanding the North-South Divide in the UK.

British Economic History
The issue of the North-South Divide** became increasingly prominent in the late 1970s and 1980s. The North, traditionally more reliant on manufacturing, grew more slowly for several reasons. Globalisation became more pronounced, the British manufacturing sector faced increasing competition from low cost producers in Asia.

Differential Growth Gaps Between North and South
The decline of the manufacturing sector in the South and London was made up by the growing service sector, facilitated by the Big Bang policies of the 1980s that encouraged the expansion of financial and professional services. The North did not experience a similar boom in services; the divergence in growth emerged as the South and London led in the service sector. Today, the manufacturing sector still plays a larger role in the North than in the South and London.

Differentiation of Economies Between the North and South
- The South has a stronger service sector, while the North relies more on manufacturing.
- The South has a higher concentration of high-productivity firms.

Graduates Across Great Britain
- Concentration of Graduates
  - London: 13.1% of all graduates
  - South: 12.3%
  - North: 9.6%

EVA Per Worker Across Great Britain
- London: £21,488
- South: £19,794
- North: £16,918

Mechanisms at Work
Self-Reinforcing Loop
- Human Capital
  - Regions with Faster Growth
  - Agglomeration economics and network effects
  - Investment
  - regions with Slower Growth
  - Less attractive to firms

Insights
- The self-reinforcing loop means human capital and new investment are continuously attracted to the South, this attracts more productive industries and more productive firms, creating further divergence in regional economic growth.
- Agglomeration economics and network effects mean it’s hard to attract more productive industries, or for existing firms in the North to increase their productivity by attracting human capital and investment.

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Policy Implications
- Current government policy has ambiguous effects on whether the divergence in regional growth will continue to increase; it does not directly address breaking the self-reinforcing loop.

Methodology
(1) Literature Review
  - Economic literature on regional economic growth, deindustrialisation and economic geography
  - Industrial policy implications
  - Results from multi-factor partitioning methods as a framework to organize major explanations from the literature for differences in regional growth rates.
  - Explain mechanisms behind the North-South Divide and its potential policy implications.

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