

# Between a rock and a hard place: Trade offs between prosperity and inclusivity when implementing regional growth policies

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## Abstract

In attempts to level up, or to generate inclusive growth across UK regions, local agencies face a potential trade off between increasing prosperity and reducing inequality. Policies which prioritise the former, for example seeking R&D investments, may do little to improve opportunity for low- income workers, while investments in low-skill sectors or activities can reduce average regional productivity.

Skills and related income levels are key because these connect the prosperity (and resilience) of firms and households in local economic systems. This paper provides some initial data for exploring the relationship between prosperity and inequality at the regional level and highlights the need to better understand policy challenges at the local level. Because these trade offs vary place by place, more precise, locally appropriate policy interventions need to be developed to guide government investments designed to boost balanced growth in defined spatial geographies.

## Introduction

A central tenet of the government's policy for growth to be more inclusive, both within and across regions, is the so-called levelling up agenda, based currently around the Levelling Up White Paper. It is not our intention to engage with the political debate concerning what levelling up means, but what is clear is that the UK needs to address the growing level of inequality, both within and across regions.

Implicit in this is that local agencies (such as Combined Authorities, local authorities, city councils or Local Enterprise Partnerships (LEPs)) face a potential trade off between prosperity and inclusivity. This trade off between efficiency and equality is a regular feature in debates around regeneration or regional development, and while inclusivity and prosperity are in themselves not inherently inversely related, we argue that typical policy approaches may render them thus.

There is clear evidence for some kinds of trade-offs under particular policy regimes. For example, a 'low skills equilibrium' (or 'low skill trap') can partly result from a focus by inward investment agencies on job-creation, with volume rather than 'quality' driving incentives (Sissons, 2021; Green, 2016). This approach could be seen as delivering inclusive growth by tackling low-skill unemployment, but average GVA per head will decline. As a counterpoint, other research (Ciarli et al., 2018) highlights that attracting R&D-intensive activities with an influx of high skilled workers, improving average local productivity can have various displacement effects on low-skilled workers, reducing their employment opportunities. This can be a combination of direct effects, with low skilled employment declining as firms transition to higher-value areas, and indirect effects as housing and other costs increase. But for some observers, policies which target high value industry sectors and attract high-skilled workers to a region create a 'trickle down' effect via consumption multipliers and this might be seen as sufficient to tick the inclusivity box.

These examples focus on skills and employment because these are central to the link between firms (productivity, innovative capabilities and competitiveness) and households (income, costs, benefits dependency and local consumption) within regional economies and therefore the relationship between productivity and inclusivity. The resilience of both firms and households in the face of economic shocks, as well as the long-term (decline vs growth) trajectories experienced by regional economies, are underpinned by patterns of skills and employment. Other policy areas are relevant, such as transport infrastructure, housing and business support (and their costs), but often because they directly or indirectly influence the above interrelationships.

But before one can seek to address the efficacy of the current overlapping economic development nomenclature in addressing the related questions of inclusivity and prosperity, one needs to consider three issues, and then explore how they impact the ability of local institutions tasked with planning for growth to deliver on the levelling up agenda. We see this at least in part as the ability to simultaneously deliver inclusivity and prosperity:

1. What is the nature of the relationship between prosperity and inclusivity at a local level? Local agencies have been asked to simultaneously set jobs targets, and address the problem of productivity. This in itself creates a tension, but inclusivity creates a further

complication. The relationship between these variables has been seldom explored, but is crucial to our understanding of the ability to deliver “levelling up”.

2. The relationship between the initial level and growth between productivity, prosperity and inclusivity. Not all local agencies start from the same place, some have far better “initial conditions” than others in terms of both average prosperity and inclusivity. It is reasonable to assume, but has not been explored in this context, that these conditions (inherited transport infrastructures, skills base, presence of universities etc.) significantly impact on a location’s ability to deliver prosperity and inclusivity simultaneously, or whether agencies prioritise one over the other, especially if they are starting from a low base.
3. The effectiveness of local sector prioritisation, of generating local productivity performance, and subsequently this delivering prosperity and inclusivity. The prioritisation of certain key sectors implies a degree of selectivity, and typically regional agencies have focused on areas of either actual or potential strength. By definition this implies that certain sectors are expected to develop faster than others, with inclusivity requiring that the benefits of this growth are shared more widely.

This therefore raises two fundamental problems. The first is how locations, beset by weak productivity growth, fragile labour markets and weak demand from neighbouring cities address these two issues of low levels of inclusion and prosperity when comparing between and within local areas. This has been the subject of recent comment by Sissons et al (2019) building on Lee and Sissons (2016), and a subject to which we return below. Tomaney and Pike (2020) articulate how many locations in the UK are facing four overlapping problems. Towns globally are becoming less productive compared with cities, UK cities are poorer than comparable ones, and therefore less well placed to contribute to the productivity of towns. Such places suffer from low levels of investment, and the urgency of this problem is compounded by relative low levels of individual mobility.

A second, aforementioned and related problem is to understand the kinds of trade-offs between prosperity, inclusivity and other growth outcomes which result from different kinds of policy interventions. This is particularly complex as we know that the same intervention has different impacts in different places. As outlined above, local transport and housing infrastructures strongly influence the journey-to-work options for skilled, lower-income employees, and access to employment for the unemployed. This in turn influences the local alignment of labour supply and demand and firm-level productivity. Privileging or limiting different segments of the labour market, sometimes by focusing on specific industry sectors, influences both productivity and inclusivity. But a wider range of factors add complexity to the local growth systems, from housing and travel costs, schooling and amenities and not least, immigration policies. The spatial variation in employment opportunities and the consequent impact on household incomes is therefore central to prosperity-inclusivity trade-offs (Rodríguez-Pose and Storper, 2020; Milanovic, 2019; Lee and Clarke, 2019).

## Inclusive growth ?

The mantra concerning inclusive growth is typically couched in terms of national policy, and how regions as a whole can benefit from inclusive growth. However, as Lee (2018) for example outlines this is just as important at a local level. Ranieri and Ramos (2013) argue that inclusive growth is essentially a trade off between equity and efficiency, whereas Lupton and Hughes (2016) argue that it is simply a nebulous concept which allows the linking of two distinct terms in a policy objective. Similarly, Cornwall and Brock (2005) argue that such terms are useful merely for justifying certain policy interventions. What is less discussed however, is how this can be delivered.

Fai and Tomlinson (2019) deliver a somewhat scathing analysis of the lack of agency of LEPs, as a particular form of local agent, with both a lack of scale and resources to deliver change. LEPs are limited in their agency to a number of functions, such as business support, a convening role between the public and private sectors, and the shaping of industrial strategy. In the absence of other institutional forms, such as Combined Authorities, they may well be (or were) the primary convenor and architect of any strategic economic plan for many regions. This sets out the priority areas for the LEP in terms of specific sectors as targets to develop competitive advantage and generate growth. Typically this is based on building on existing strengths, and seeking to amplify them into emerging sectors.

### The relationship between prosperity and inclusivity

The data presented here are for each of the LEPs in England. The multi-faceted nature of concepts such as prosperity and inclusivity means that single variables are unlikely to be effective proxies. As such, we adopted the established methodology of the Inclusive Growth Monitors 2016 and 2017<sup>1</sup> and created a composite index for the indices of ‘prosperity’ and ‘inclusivity’. These indices (Table 1) are based on a set of composite indicators that bring together a range of dimensions relating to prosperity and inclusivity and allow us to examine the relationship of these two concepts in time. In order to allow us to examine both dynamic and static relationships we observe data between 2013 and 2018.

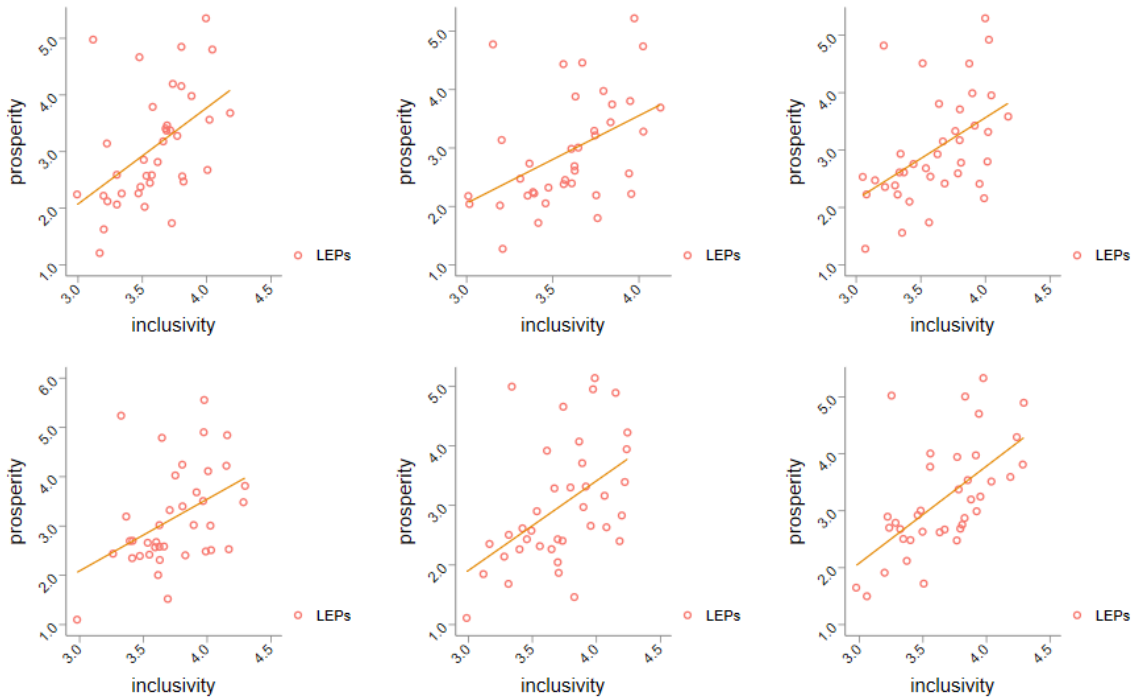
Theme	Dimension	Indicator
Prosperity	Output	GVA per/hour (real and nominal) (year=2017)
		Median gross weekly pay for full-time workers
	Employment	Employment rate 16-64
		% of employees in low pay sectors
	Human Capital	% of workers in managerial, professional and technical occupations (SOC 1,2 and 3)
		% aged 16-64 with NVQ2 quals or above
Inclusion	Income	% in-work households receiving child and/or working tax credits
		20:20 ratio of median weekly pay (gross), full-time workers
	Poverty	Ratio of lower quartile house price to lower quartile earnings
		Life expectancy (females)
	Participation	% of premises with access to superfast broadband
		% of households that are workless

Table 1: Composite index for the indices of ‘prosperity’ and ‘inclusivity’

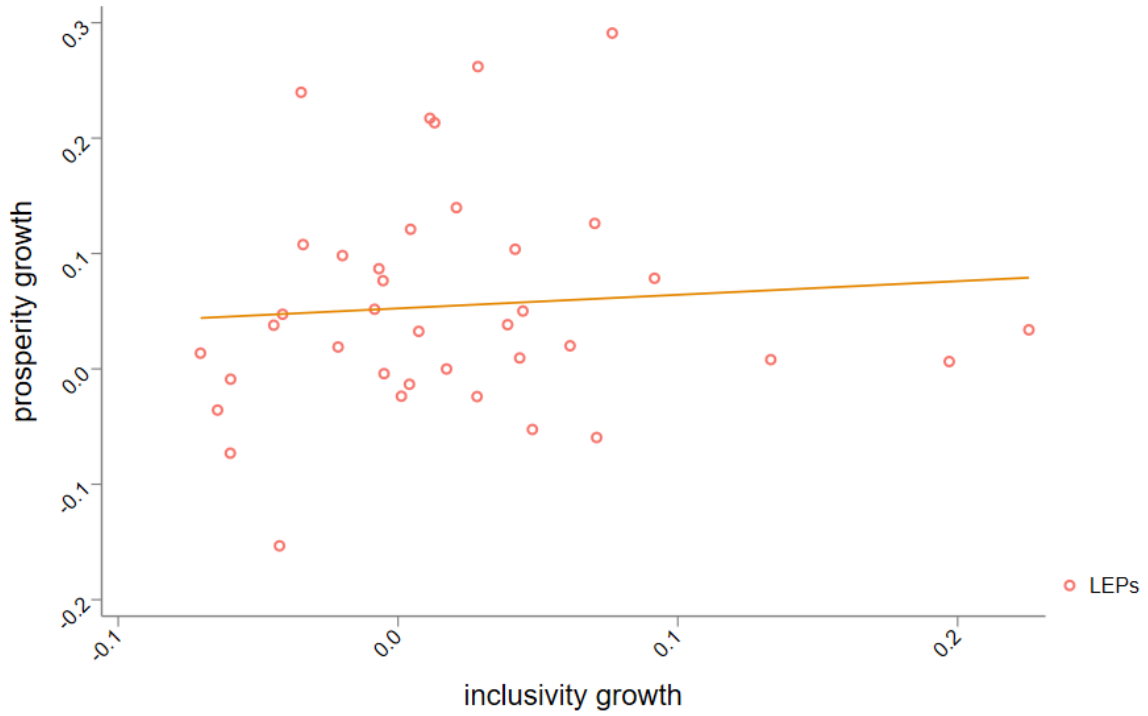
<sup>1</sup> <https://hummedia.manchester.ac.uk/institutes/mui/igau/growthmonitor/2017/2017-guide-to-IG-monitor.pdf>

In static terms, there is a consistent positive correlation between prosperity and inclusivity, in each year between 2013 and 2018. This means that in each year, LEPs with higher composite scores in prosperity are more likely to score highly in inclusivity and vice versa. Considering the underlying indicators this result seems intuitive in that places with better performance in terms of output employment and human capital are also likely to be places with better outcomes in relation to incomes, poverty and participation rates.

#### Year by year relationships between prosperity and inclusivity

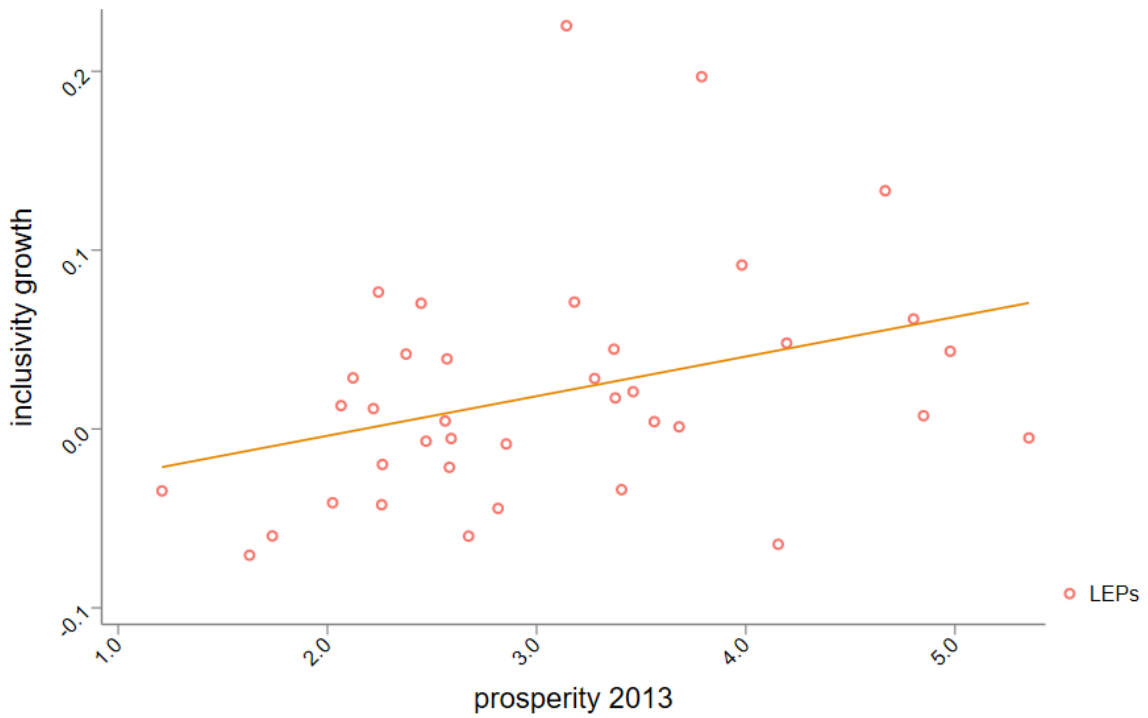


When we compare the 2013-18 differences in inclusivity and prosperity, this positive association is significantly dampened, with only a weakly positive relationship between prosperity and inclusivity growth. This in turn suggests that LEPs that see increases in their prosperity are mildly likely to experience increases in inclusivity.



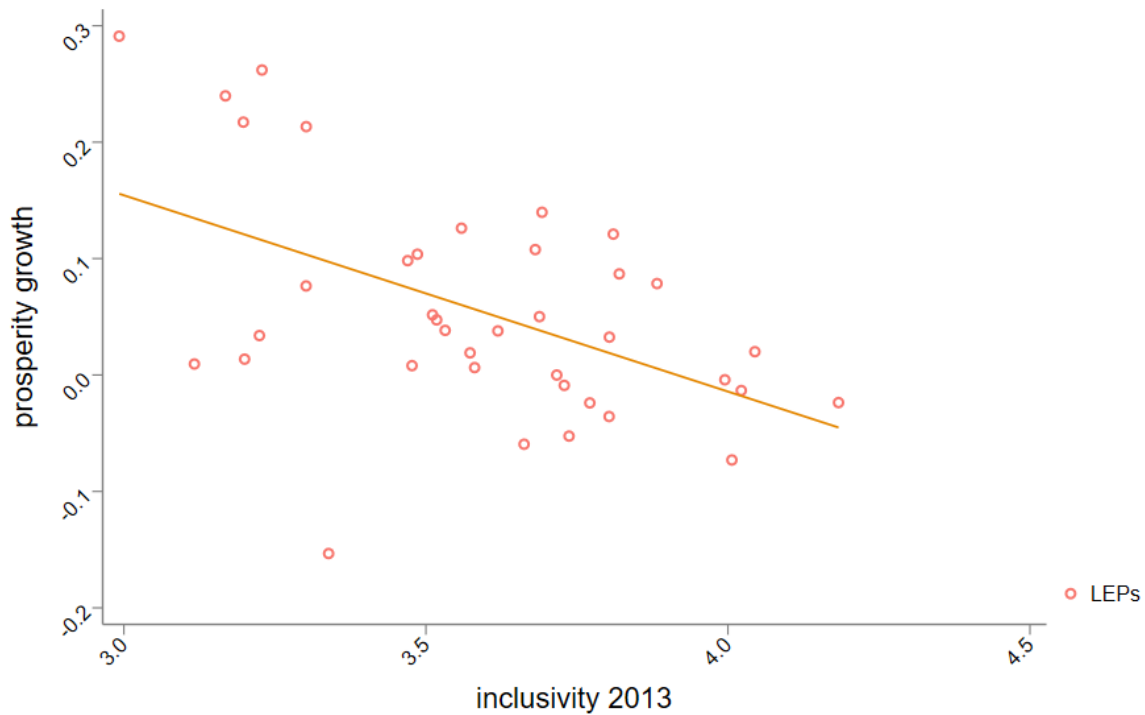
**The relationship between initial prosperity and inclusivity**

Considering the starting point we find that LEPs with higher prosperity in 2013 have seen greater inclusivity growth over 2013-18. This is suggestive evidence that more prosperous places could ‘afford’ to concentrate efforts on improving inclusivity outcomes.





On the other hand, more inclusive places in 2013 have seen slower (or even negative) prosperity growth during 2013-18, suggesting a trade off between inclusivity and prosperity in the long run.



## Conclusion

The data presented here highlights some real challenges for generating productivity, and in turn translating that into inclusivity, especially in the “left behind” places in the UK. The trade off, and the decisions that are required to understand and enact this at a local level require intelligence, and therefore resources to be devolved to a local level. Since their inception, LEPs have been under-resourced for the task in hand (Fai and Tomlinson, 2019) and research has criticised the lack of formal guidance on the geography, funding arrangements and responsibilities of LEPs (Bentley and Pugalis, 2013; Jones, 2013; Pike et al., 2013). There is also evidence showing that regions lack the capacity and capability across all types of local agencies to develop and deliver locally-appropriate, growth plans which balance these outcomes. Due to these constraints, our analysis suggests the scale of the problem delivering not just prosperity but inclusive growth.

While differences in productivity are seen as the major cause of regional disparities, improving productivity alone will not necessarily improve inclusivity, which is the key element of levelling up. Inclusivity relates to the extent to which prosperity is spread evenly. Thus, policies are required to go beyond “mere” productivity improvement. There are no geographical areas that have seen increases in both prosperity and inclusivity over the five-year period. Regardless of how it is defined, levelling up will require prosperity growth in currently less prosperous regions. The rarity of this phenomenon to date demonstrates the scale of the challenge.