企画論文

A new regional development policy in the UK: the ‘levelling up’ agenda

RAWLINSON Francis[1)]

1　Introduction

Until Brexit at the end of 2020, the United Kingdom received around €1.6bn a year from the EU for regional development including training. This EU ‘cohesion’ policy was popular in the UK regions benefitting from it, particularly because of the greater certainty associated with seven-year guaranteed funding cycles and the key role the regions had in administering the policy (Gov.UK (2014)).

In the EU referendum campaign, the ‘Leave’ side, while dismissing the EU funding as ineffective, was anxious to reassure voters that this money would not simply dry up after Brexit. They promised the funding would be maintained until the end of the EU budget period in 2020. Only then would it be replaced by nationally designed schemes. The same pledges were given for agricultural and science funding.

In the event, the future of agricultural and science funding was decided quite early in the Brexit process, while the planning for what to do by way of regional policy post-Brexit has been much slower. The reform of agricultural subsidies, applying the principle of “public money for public goods,” was begun in 2018 and legislation passed in November 2020 (Gov.UK (2020)). For science funding, the UK government decided after all that the EU collaborative research programme, *Horizon Europe*, was useful enough for it to be worthwhile negotiating continued participation in it. This was agreed in the final Brexit agreement, the EU-UK Trade and Cooperation Agreement of December 2020 (Gov.UK (2020A)). In return for associate membership of *Horizon* the country would pay annual contributions of around £2.1bn to the EU budget (roughly £15bn in total over seven years), on top of the roughly £25 billion divorce settlement.

Relatively fast progress was also made on the new immigration regime (Gov.UK (2020B)) and on the replacement for the EU ‘state aid’ (subsidy control) rules (Gov.UK (2021C)). The new immigration regime had to be in place by 1 January 2021 when ‘freedom of movement’ from the EU ended. A replacement subsidy control system offering similar guarantees of a ‘level playing field’ between EU and British firms to the previous EU rules was a condition of the EU-UK Trade and Cooperation Agreement. Draft legislation is now before Parliament.

Detailed plans for a future broader regional policy – which goes under the name of ‘levelling up’ – are still awaited. A ‘white paper’ was scheduled by the end of 2021 but will now be published in 2022 (*BBC News* (2021A)). However, a number of new regional aid schemes were launched in 2020 and 2021 and are already operating.

This paper will discuss the plans and challenges of regional policy in post-Brexit Britain. It starts with the connection to Brexit (section 2.1). Ironically, the

1)　Former official of the EU Commission. Fellow of Kwansei Gakuin University, previously visiting professor.

widening of regional policy to a wholesale ‘levelling up’ of economic and social inequalities related to place is partly thanks to Brexit. Not that being in the EU had anything to do with the country previously failing to tackle inequalities. Rather, the referendum brought to light the depth of the discontent among the population of disadvantaged areas and the political risks of inaction.

In section 2.2 the paper goes on to describe the scale of regional disparities and other inequalities in the UK. Interregional economic disparities in Britain are among the widest in the OECD and have been getting wider.

Sections 2.3 and 2.4 then contrast the government's intentions for dealing with the problem, in the light of its policy statements and the measures already decided, with what experts say is needed to begin to make real inroads into these imbalances. A necessary condition of a successful ‘levelling up’ policy, according to many experts, is decentralization of decision-making on local economic development away from central government in London to the English regions, possibly accompanied by further devolution of powers to Scotland, Wales and Northern Ireland. This is so crucial and so challenging a task for the overcentralized British state as to merit a separate section (2.5).

The conclusion in section 3 is one of cautious optimism. ‘Levelling up’ could be a success, at least in some respects, if the stars are aligned to allow many things to come right against the backdrop of a politically divided Brexit Britain. But the challenges cannot be overestimated.

2.1 ‘Levelling up’ and Brexit

The widening of the post-Brexit regional policy framework to a wholesale ‘levelling up’ of economic and social inequalities was an indirect result of Brexit. How did this come about?

Brexit was the culmination of a 20-year-long campaign started in the mid-1990s by a Eurosceptic minority of the Conservative party and its allies in the right-wing London-based press, against EU plans for further financial and political integration (Rawlinson (2020)). By the early and mid-2010s, the Brexit cause had grown into a national movement, supported by increasing numbers of Conservative MPs, party members and voters, the majority of the press and even a dedicated party, the United Kingdom Independence Party (UKIP).

But the votes of Conservative and UKIP voters would not have been enough to win the 2016 referendum on their own. What tipped the scales to ‘Leave’ were the votes of working-class voters in the Midlands and North of England who had traditionally voted Labour. Though immigration from the EU was a factor in the ‘Leave’ vote of Labour supporters as it was with Conservative and UKIP supporters, a bigger factor with Labour and UKIP voters in disadvantaged areas seems to have been dissatisfaction with the status quo of deindustrialization and decline suffered by their regions, areas which successive governments had never done enough to revitalize and on to whose distress the government of David Cameron – ironically the leader of the ‘Remain campaign’ – had piled on years of austerity. The ‘Leave’ campaign led by the Conservatives Boris Johnson and Michael Gove and the UKIP leader Nigel Farage tapped into this discontent by persuading voters, quite wrongly, that their decline and neglect were largely down to EU membership.

This was no more true than were the lies about excessive (“£350 million a week”) contributions to the EU budget or imminent Turkish accession, which the EU could supposedly push through without any right of veto by its member countries, and which would then, it was argued, set off a further wave of mass immigration.

It was not the EU that had stopped Britain investing sufficiently in its regions; indeed, without the EU it is doubtful whether Britain would have had much of a regional policy at all, so feeble were its efforts compared with those of other EU countries like Germany or France.[2)] Undeservedly the EU nevertheless became a scapegoat for the discontent that had built up in the 'left-behind' areas of the Midlands and North over the past three decades. The Brexit vote was "the right answer to the wrong question" – certainly a howl of protest and a justified demand to finally do something about the unfair situation of these areas compared to other parts of Britain, but hardly a reasoned decision on the question the referendum was ostensibly about, the EU (McCann (2020), Rodríguez-Pose (2018)).

The ambiguity of the Brexit result was not lost on the Conservative party. Though not previously noted for its commitment to government intervention in the economy in general or regional policy in particular, it realised the need to do more to redress regional inequality if it was to convert the one-off vote for the Conservative cause of Brexit in 'left-behind', traditionally Labour-voting areas into permanent support for the party in elections.

Theresa May, who took over from David Cameron as prime minister in July 2016, therefore, while stressing her determination to carry out "the will of the people" and take Britain out of the EU, repeatedly stated that the vote was also a demand for change. She pledged to correct the "burning injustices" of lack of opportunity due to place of birth and socio-economic background that still marred modern Britain (May (2016)), and to build a "stronger, fairer" Britain (May (2017)).

As it turned out, the Brexit negotiations monopolized government and parliamentary business during Ms May's period of office, and she was unable to do much about the inequalities revealed by the referendum (*BBC News* (2019)). But they were mentioned in her manifesto for the June 2017 election, which tried to appeal to 'left-behind' individuals and communities with promises of decentralized local development and fairer opportunities (May (2017A).

Her successor as Prime Minister, Boris Johnson, followed a similar strategy in the December 2019 election in which he won a large majority, thanks in large part to gaining former Labour 'red-wall' seats in the Midlands and North. His winning election slogan of "Get Brexit Done" – finally, after three-and-a-half years of bickering, manoeuvring and ultimately stalemate both in the negotiations with the EU and in Parliament – was combined with the promise of an ambitious programme of 'levelling up,' directed principally at the former Labour-held areas that had swung the referendum vote and he hoped would win him the election.

Johnson's election manifesto, recognizing that "talent and genius are uniformly distributed throughout the country, but opportunity is not," pledged to "unite and level up [the country], spreading opportunity across the United Kingdom to parts of it that feel left behind, not just investing in our great towns and cities, as well as rural and coastal areas, but giving them far more control of how that investment is made." It was time to close the gap, he said, "not just because it makes such obvious economic sense, but for the sake of simple social justice" (Johnson (2019)).

The promise was clear – and the electoral consequences for the Conservative party if the government failed to make progress on honouring it could be serious.

2) My main recollections of dealings with the UK central government about regional policy in the late 1990s and early 2000s as an official in the European Commission's regional policy directorate general are of squabbles about the amount of national funding needed to match EU contributions to projects, which central government sought to minimise, and continuous staff cuts in the central government departments meant to be supporting the EU co-financed programmes. In the regions implementing the programmes on the ground, the opposite was true: enthusiasm about what the EU funds were doing to revitalize their areas in contrast to the stinginess of the government and a strong desire to learn from good practices elsewhere in Europe.

Regardless of the political implications, were this to be the start of a regional rebalancing of the British economy and British society, such a positive, albeit accidental, spin-off from the Brexit vote would be extremely welcome, because the regional disparities are enormous.

2.2 The extent of regional disparities and other inequalities in the UK

Based on analysis of OECD data, the UK is in fact one of the most inter-regionally unequal countries in the industrialized world (McCann (2019)).

The results obtained from comparing international data on regional disparities can vary depending on the metric used – for example GDP per capita or disposable income per capita; the size of region – for example larger or smaller territorial units such as OECD TL2 or TL3; and the statistical populations compared – such as the highest and lowest ranked individual regions or the top 10% and bottom 10% of regions. To obtain a more robust result, it is therefore best to use a range of such indicators.

Philip McCann followed such a process in his 2016 book, *The UK regional-national economic problem* (McCann (2016)). As detailed in his 2019 *Regional Studies* article, McCann applied 28 indicators to comparable OECD data from 30 countries including the UK. The metrics compared were GDP per capita, GVA (Gross Value Added) per worker, RDI (Regional Disposable Income) per person, and the Gini index; the regions were OECD TL2, TL3 and metro urban areas, and EU NUTS-2 and NUTS-3 areas; and as the statistical populations the analysis took the top and bottom individual regions and the top and bottom 10 and 20% of them.

The result of McCann's multi-indicator analysis shows that the UK ranks as the most inter-regionally unequal of the nine advanced industrialized countries UK, US, France, Germany, Spain, Italy, Sweden, Japan and South Korea, and as the 28th most unequal of all the 30 OECD countries examined, after Slovakia and Ireland (McCann (2019)).

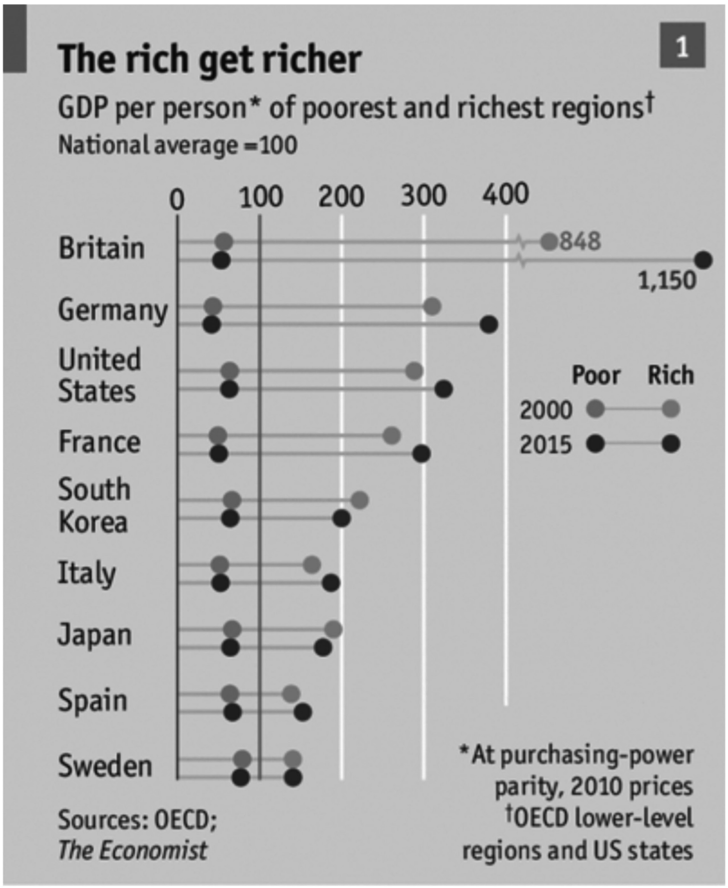
The result on the nine big countries confirmed the conclusion of an article in *The Economist* in 2017 (*Economist* (2017)). A table in the article (reproduced as Table 1) was criticized as misleading on the ground that it exaggerated the state of regional disparities in the UK compared to its closest comparator countries.

The *Economist's* table compared the most productive and least productive single small regions (OECD TL3) in terms of GDP per capita. In the UK, the ratio between the TL3 regions at the opposite ends of the productivity scale, Camden and City of London at the top of the scale and the Isle of Anglesey in Wales at the bottom, was a startling 23:1. The critics claimed that based on other metrics the UK displays only average levels of inter-regional inequality. But this was incorrect: differences in productivity such as GDP per capita, and not disposable income as suggested by the critics, are recognized to be the best measure of regional disparities within a country and, while the metric used by *The Economist* showed those differences as particularly large and on other metrics they would appear smaller,[3] on an international comparison the UK is still clearly an extreme case.

Analysis by the Institute for Fiscal Studies (IFS (2020)) based on somewhat different metrics from McCann again confirms the outlier position of the UK with regard to interregional inequalities (see Table 2). The table shows the ratios of GDP per capita between the

3) Differences are obviously bigger between the end points of a range (as in the *Economist* article) than between larger populations at each end of the range or between percentile points within the range. Also, between smaller regions (as in the article) differences are larger than between bigger regions and can be inflated by inward commuting patterns. Camden and City of London is an extreme example of this, with 800,000 people working there but only 256,000 permanent residents. Discussion of the controversy in *Economist* (2018) and McCann (2019).

Table 1: Difference in productivity between regions of OECD countries, 2000 and 2015



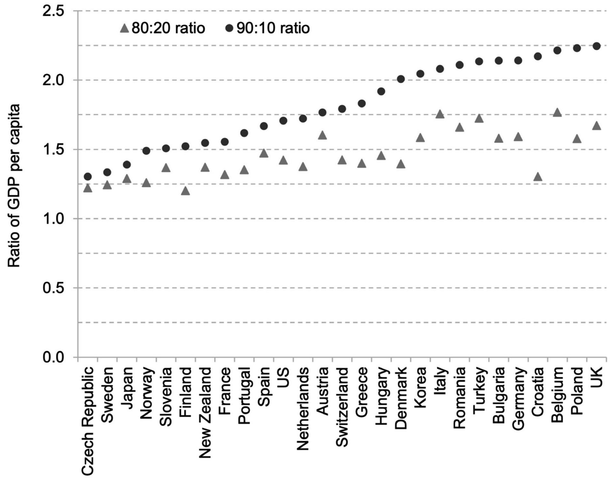
Source: *The Economist*

80th- and 20th-percentile ranked TL3 regions and the 90th- and 10th-percentile ranked TL3 regions in 27 countries. The UK is seen to have the highest ratio (2.25) between the 90th- and 10th-percentile ranked regions and the fourth highest (1.67) between the 80th- and 20th-percentile ranked regions.

The imbalance between British regions is thus stark. Britain has some of the richest and poorest parts of Europe all in the same country (*BBC Radio 4* (2021), Joanie Willett). Part of the UK is over-performing on OECD measures, part is hugely underperforming, with half of UK regions having levels of prosperity no better than poorer parts of the former East Germany, the US states of West Virginia, Mississippi or Alabama (McCann (2021)) or Hungary, Slovakia and parts of Poland (Local Government Association (2021)). According to the Centre for Cities, all major British cities outside London are at the bottom of the western European league table for productivity. Gross Value Added per head in Newcastle, Sheffield, Nottingham and Glasgow is around half that of Brussels, Amsterdam and Munich (*Guardian* (2021A)).

The imbalance is essentially a core-periphery problem. The core of London and the South East of England dominates the rest of the country (McCann (2021)). Taking commercial rents as an example, the rent for an office next to London's Euston station is ten times that for one next to Birmingham's New Street station, reflecting the fact that high value-added jobs tend to be in London and back-office functions in places in the

Table 2: Measures of inequality in regional GDP per capita, by country



Source: Institute for Fiscal Studies using OECD Stat regional GDP

periphery like Birmingham (McCann (2021), Henry Kelly).

Characterizing the problem as one of city versus town or urban versus rural is a false diagnosis, according to McCann and Andy Haldane (McCann (2021), *BBC Radio 4* (2021), Andy Haldane). Many of the most prosperous places in the UK are small towns or rural areas (McCann (2020), McCann (2021)). The most salient differences are between core and periphery. Generally speaking, within the core of London and the South East, cities, towns and rural areas are all doing well, whereas in the periphery, cities, towns and rural areas are all doing quite badly. That is not to deny the quite large intra-regional disparities in London and the South East; for example, pockets of poverty exist in London and in declining south-eastern coastal towns, but at present they are exceptions, though the Covid pandemic may increase their extent (see section 2.4). Conversely, Manchester and Scotland (a 'devolved administration') are showing signs of bucking the trend of relative decline in the periphery (McCann (2020), Alan Harding, McCann (2021)).

Nevertheless, in the periphery it remains the case generally that the cities are not delivering the normal benefits of agglomeration, but are "punching below their weight" (McCann (2020), Philip McCann, Richard Jones and Alan Harding). A third of the UK's large urban areas are only very slightly more prosperous than their hinterlands. Two thirds of UK large cities are less prosperous than the UK average and the productivity growth of many of them has stalled since the 2008 financial crisis (McCann (2019). They are thus unable to act as engines for growth in the regional economy as second-tier cities in mainland Europe like Bordeaux, Lyon, Milan, Turin, Frankfurt, Munich, Stuttgart, Hamburg and Cologne do, or to contribute as much to the national economy (*BBC Radio 4* (2021), Paul Swinney).

A few statistics suffice to show the extreme and worsening imbalance of Britain's economic geography, which successive governments have not only not done enough to mitigate but have indeed exacerbated through a public investment policy skewed towards the already prosperous and productive South East:

- From 1997 to 2017 the share of London (13% of the UK's population) in Britain's gross value added rose from 19% to 23% (*Economist* 2017)). It accounted for 38% of national GDP growth between 2000 and 2016 (Social Market Foundation (2021)).

- Between 2007-08 and 2018-19 capital spending on transport in London was around £6,600 per head, more than twice the average in the rest of England (£2,400) (Gov.UK (2021A)). Overall investment spending in London over the five years from 2014-15 to 2018-19 was 70% above the average elsewhere in the UK (IFS (2020), 347-348).

- Half of Foreign Direct Investment projects go to London and the South East (*BBC Radio 4* (2021)).

- 46% of R&D spending (public and private) takes place in London and two adjoining NUTS 2 regions (McCann (2020), Richard Jones). Government R&D expenditure in London, the South East and the East of England is 1.8 times the average for the rest of the UK (IFS (2020), 353).

- There is a brain drain of educational high achievers to London: 50% of Oxford and Cambridge graduates and 20% of all graduates end up in London (*BBC Radio 4* (2021), Paul Swinney).

In the past, inequalities between a country's regions appeared to balance themselves out over time as the rich regions invested in poorer ones with untapped potential and technological know-how spread through the economy. But 'trickle-down economics' – the idea that with investment in London which has high productivity you would grow the pie and that would then filter back down to everywhere else – no longer works in Britain (*BBC Radio 4* (2021), Joanie Willett, *Economist* (2017)).

In such circumstances, unbalanced government expenditure can only make inequalities worse. While the UK has an efficient transfer union to shovel money from the South East to the rest of the UK to make up for economic inefficiencies there, as Neil O'Brien, one of the government ministers responsible for 'levelling up,' has said, the money that would enhance productivity – like that for transport and R&D – is precisely the kind that has not been transferred. Instead this is concentrated in those parts of country that are already the most productive (McCann (2020), Richard Jones, Gov.UK (2021)).

The official statements of the Johnson government and of Johnson himself on the 'levelling up' agenda also refer to inequalities in health and life expectancy, educational attainment and social mobility. This recognition of the link between social justice and economic efficiency, explicit in Johnson's election manifesto, and already seen in Ms May's promise to correct "burning injustices," is enlightened and encouraging for supporters of a more equal Britain.

The background information on 'levelling up' accompanying the government's legislative programme for 2021 (Gov.UK (2021A)) accordingly mentions that healthy life expectancy in Glasgow, Dundee, Blackpool and Middlesbrough is ten years shorter than in affluent local authorities in the South East. The Health Foundation says that differences in the quality and accessibility of health care, leading to generally poor health among much of the UK's population, is holding back the country's economic performance: "You won't level up the economy unless you level up health" (*Guardian* (2021A)). The goals of developing the local economy to be more sustainable and productive, and of improving the health of the local population and reducing health inequalities, are interdependent (Local Government Association (2021)).

Similar regional differences are also seen in levels of educational attainment such as school-leaving certificate grades and graduate qualifications. These, too, are referred to in the data accompanying the government's legislative programme (Gov.UK (2021A)). Peter Lampl, head of the social mobility campaigning organization the Sutton Trust, wants the 'levelling up' agenda to place emphasis on degree-level apprenticeships. This would both raise the skill levels available to local employers, thus improving the local economy, and advance individuals' social mobility – the potential for people to achieve success regardless of their background (*Financial Times* 2021).

Social mobility has been going backwards in Britain in recent years (Rawlinson (2020), 58 and 293). One of the biggest obstacles to social mobility is the poor level of educational provision offered in state schools in 'left-behind' areas. Justine Greening, an education and equalities minister in the May government, was one of the first people to use the expression 'levelling up,' with reference to education. She insists that "Britain must become a fairer country with equality of opportunity" (*Guardian* (2021E), Justine Greening).

While claiming it is keen to improve educational provision as part of 'levelling up,' in particular with degree-level technical qualifications, the government has no plans to dismantle the country's "educational apartheid" created by the privileged private school sector (*Economist* (2021)). The *Economist's* outgoing Bagehot columnist calls this system, which underpins the still vibrant class system in Britain, "a disgrace" and a barrier to 'levelling up'. He recommends opening 60-70% of private school places to poor scholars on bursaries. That is most unlikely to happen under a Conservative goverment, given that most of the Johnson cabinet and nearly half of Conservative MPs (only 15% of Labour) are products and beneficiaries of this system (*Guardian* 2019)). It is a taboo subject studiously avoided in the government's pronouncements on 'levelling up.'

The government does, however, finally seem to be convinced by arguments that the economic and social imbalances on the scale that exists in Britain are preventing the country achieving its full potential (McCann (2020), Richard Jones, McCann (2021)); that investment in deprived areas is not to be thought of as charity, but will yield a return in the form of higher national prosperity; and that more balanced economies are stronger overall, according to Neil O'Brien MP, 'levelling up' minister in the present government, citing McCann (*Guardian* (2021D)).

Depressed regions like Merseyside resemble emerging economies that have space to develop new activities, such as combating climate change (McCann (2021), Alison McGovern). The Brexit argument that the UK needed better links to emerging markets outside the EU ignored the scope for growth in underperforming areas within the country.

Failing to tackle serious economic and social inequalities creates political risks, for they are a big factor in the feelings of social injustice, alienation and anger among people in areas where there is a palpable sense of stagnation and lack of opportunity (McCann (2021), Alison McGovern). People in such areas can quickly turn against a government if it appears to be ignoring their plight despite previous promises (*Economist* (2017), *BBC Radio 4* 2021, Helen Morrissey, McCann (2020)). The present government is aware of this danger, having been on the side in the Brexit referendum that benefited from the discontent of 'left-behind' areas and promised that Brexit would make their situation better.

2. 3 What we know of the 'levelling up' policy so far

Hitherto, the rhetoric on 'levelling up' has predominated; there has been much less in the way of concrete plans and actions.

On the other hand, the first step in developing any new policy is acknowledging the problem, so it is encouraging that that particular frontier appears to have been crossed, at least as far as the government itself, and chief among them the Prime Minister, is concerned. Not all the Conservative parliamentary party or its supporters in the London-based right-wing press necessarily agree, however, because admitting the need for increased government spending to correct regional inequalities goes against the party's non-interventionist, low-tax traditions as well as being embarrassing for a party that has been in power for the past 11 years.

Despite the doubts (McCann (2020)) or outright scepticism (*Guardian* (2021E), *BBC Radio 4* (2021), Calvin Jones) among academics, journalists and politicians who have been calling for more balanced development and a fairer society in Britain for a long time and find the shift in mood hard to believe, the fact that a Conservative government has recognized the existence of a problem must be welcome. Official statements such as those found in the government's legislative programme (Gov.UK (2021A)), in the "Build Back Better" growth plan from the Treasury (Gov.UK 2021)),[4] and in the Prime Minister's 'levelling up' speech (Johnson (2021)) are littered with statistics on the disparities both within the country and with respect to other countries, mainly in Europe, which Britain is lagging behind. This is clearly partly to get the party and the press behind the policy and to reassure voters in 'left behind' areas that the government is in earnest about 'levelling up.' But the statistics and the implied promises are now on the official record and will be hard to row back on should the policy not make progress. The genie has been let out of the bottle.

The unfavourable comparisons with EU countries like France and Germany on GDP, infrastructure and many other measures must be especially galling for a government led by Brexiters, because in the referendum they told voters that the EU was holding Britain back, whereas now they are saying France and Germany are models to follow, an implicit admission that Europe is not much of an impediment to investment and growth after all. "To a large extent Germany has succeeded in 'levelling up' where we have not," Johnson said in his speech, in explanation of the fact that GDP per capita in many parts of Britain is lower than in the former East Germany. The underlying reason for the difference between reducing inequality in Germany and increasing inequality in Britain was not suffocating EU red tape, but simply the fact that Germany made balancing the economy a priority, while for Britain it was an afterthought (McCann (2020), Philip McCann, Alan Harding).

Now that this appears to have changed, the initial reaction is a sigh of relief: "Better late than never." But then, as noted, doubts start to creep in. The general objective is so ambitious as to be virtually Utopian (*Economist* (2021)). Its vagueness ("a slogan in search of a policy," Centre for Cities (2021), Nick Bowes), and the platitudes and jingoistic hyperbole that make the "Build Back Better" memorandum read more like a hastily cobbled-together political speech than a carefully considered plan,[5] set one wondering whether it is realistic or just another case of overpromising and under-delivering, like Brexit and so much else with the current government (*Guardian* 2021E)).

Others see the commitment as a rare open door in Whitehall through which local communities that have long been ignored and marginalized can "throw down the gauntlet" to the government to grant them long

4) The growth plan supposedly replaced the "industrial strategy" launched by the May government in 2017, but never popular in the party because of its connotations of interventionism (Gov.UK (2021B)).

5) "We will unite and level up the country;" "Everyone knows that talent and energy, enthusiasm and flair are evenly spread across the UK, but opportunity is not" (Johnson (2021)); "Place matters. Where people live should not be a barrier to their life chances;" and, reciting the often ridiculous "world-beating" mantra that is now a staple ingredient in all government messaging, "We will make the UK a science and technology superpower, the best possible place to create green jobs, the best ecosystem in the world for starting and growing a business" (Gov.UK (2021)).

overdue help (*BBC Radio 4* (2021), Helen Morrissey), or as the seeds at least of what could grow into a "serious transformative economic agenda" (Centre for Cities (2021), Carys Roberts).

The "Build Back Better" memorandum has anyway put a little meat on the bones of the 'levelling up' policy. It combines aspirational half-promises with concrete commitments and actions. The former category includes unspecified commitments to ensure a globally competitive city in every region with regional 'centres of excellence'; to tackle health disparities; and to make communities safer by reducing crime and antisocial behaviour. The latter consist of various existing spending commitments, like the £600bn of public infrastructure investment for 2020-25 (including £100bn for 2021-22) announced in the 2020 spending review; ongoing investment projects like the high-speed rail project HS2, and planned investment in buses, cycle paths, broadband, carbon capture and storage, intra-city transport, flooding and coastal defences, and EV charging points; the flagship "free-ports" scheme – special economic zones to attract investment to old industrial areas – which is already well advanced; the National Infrastructure Bank to provide funding similar to the EU European Investment Bank, and the British Business Bank for small and medium-sized enterprises – both these banks to be sited in the North of England; the Towns and Levelling Up Funds providing money for urban regeneration and other local projects, and the Shared Prosperity Fund which is set to replace the ("overly bureaucratic") EU Structural Funds in 2022; and finally the relocation by 2030 of 22,000 civil servant roles out of London to the regions.

The commitments to infrastructure spending are bigger than in the recent past, but doubts have been expressed about the capacity of central government to manage a programme of procurement on this scale, even with private contractors drafted in to help. This would be an argument for devolving more decision making to local and regional authorities. The government has announced changes to its cost-benefit analysis methodology (the 'Green Book') to allow more investment to go to places outside London and the South East, which have traditionally received the lion's share because of having higher productivity in the first place (Gov.UK (2021), IFS (2020), 350). A large increase in R&D funding has also been promised, which would raise public investment in research to 0.8% of national income by 2024-25 and total (including private-sector) R&D investment to 2.4% of national income by 2027 (IFS (2020), 351), a level beginning to approach Germany's. The "Build Back Better" memorandum refers to a planned "R&D Places Strategy" paper on sharing more of such investment out to the regions.

Yet the statements still leave many unanswered questions and nagging doubts. They pay lip service to the devolution of more powers to local government, but the experience so far with schemes like the Levelling Up Fund does not bear out the claim that the government is adopting a "new economic approach," but shows it is doing exactly as it has always done, setting up small discrete pots of money that local authorities have to bid for, and maximizing its control by negotiating "deals" and "settlements" with individual local or combined authorities (Centre for Cities (2021), Carys Roberts, Local Government Association (2021), Social Market Foundation (2021), McCann (2021) – see also section 2.5 below). The language of the "Build Back Better" memorandum in relation to local government betrays the traditional patronising, top-down approach, and this is also perceptible in the comments of people close to the development of the white paper (Centre for Cities (2021), Will Tanner).

Also, despite the frequent demonstrative references to "UK-wide" and the "Union" in the memorandum, it is questionable to what extent the UK government will be able to persuade the 'devolved administrations' to take part in 'levelling up' on its terms. Then there is ambiguity about whether the government intends to give priority to cities as engines of development in their region or to focus on regenerating ‘left-behind,’ probably Conservative-voting towns instead (Institute for Government (2021)).

There have been complaints of favouritism being shown to towns with Conservative mayors or MPs in allocating grants from the Towns and Levelling Up Funds (*Guardian* (2021) and (2021C), *Financial Times* (2020)), and Johnson’s disparaging comments about Labour-run local authorities in his ‘levelling up’ speech confirmed this apparent bias (Johnson (2021)). Clearly, the government needs to be able to point to tangible progress to improve the lot of the towns forming part of the former Labour “red wall” that voted Conservative in the 2019 election – the need for “short-term wins necessary to keep the electorate on board,” as Will Tanner puts it (Centre for Cities (2021)). But does that necessarily mean ‘levelling up’ is just a short-term political project (Centre for Cities (2021), Nick Bowes)? And what about London? Will the capital be included so that it can tackle its own levelling up problems, which have been aggravated by Covid, or will it not get anything because it “would’t look good” and London is less important politically (Centre for Cities (2021), Nick Bowes)?

Finally comes the vital question, can the country afford it? The cancelling of the eastern leg of the high-speed railway line HS2 from the Midlands to Leeds in November 2021, reneging on earlier assurances, has raised doubts about whether the Treasury thinks money is actually too tight at present and for the foreseeable future to countenance heavy additional expenditure (RailTech (2021), *Guardian* (2021F)).[6)]

And beyond the short and medium term, the bigger question is, does the country know the scale of the challenge it is taking on? Johnson has said the transformation will be a “huge undertaking”, but has the long-haul nature, scale and especially huge cost of the enterprise really registered, beyond the small band of its proponents in government, universities and think tanks (Centre for Cities (2021), Nick Bowes)?

2.4 Ingredients of a successful policy to reduce interregional inequality in the UK

To economists like Alan Harding, of the Greater Manchester Combined Authority, Philip McCann of Sheffield University and Andy Haldane of the Bank of England, the reasons why British governments have consistently failed to correct imbalances in the economy are not hard to find (McCann (2020), Alan Harding, Philip McCann, Centre for Cities (2021), Nick Bowes, *BBC Radio 4* (2021), Andy Haldane).

The number-one reason is lack of continuity. In Germany, the general joint federal-state regional development programme *Gemeinschaftsaufabe “Verbesserung der regionalen Wirtschaftsstruktur”*[7)] has been operating uninterruptedly since 1969. Similarly august and successful institutions are the banks providing subsidized loans to small and medium-sized businesses such as the *Kreditanstalt für Wiederaufbau* (KfW)[8)] and the *ERP-Sondervermögen*,[9)] a constantly recycled legacy fund stemming from the post-war “European Recovery Program” or “Marshall Plan”, and, for research, the *Fraunhofer-Institute* network of regional research centres (Haldane (2018), *Economist* (2017)).

British governments, by contrast, are typically short-

6) The Minister in overall charge of ‘levelling up’, Michael Gove, told the *Today* programme on *BBC Radio 4* on 10 January 2022 that they had already secured the necessary financial commitments from the Treasury, though he was presumably referring only to the short term (*BBC Radio 4* (2022)).

7) Joint Task “Improvement of regional economic structure”.

8) Credit Institution for Reconstruction

9) ERP Legacy Fund

termist and tend to chop and change, especially after a party regains power after a period in opposition. The first occasion a British government felt the need to intervene to counteract development inequalities was with the Special Areas Act of 1934, which targeted regions suffering from high unemployment as a result of the Great Depression. After the war another scheme was introduced to attempt to direct investment to depressed areas by requiring investors to obtain 'industrial development certificates.' However, in the early 1960s Harold McMillan was still worried by "the imbalance between south and north – between 'rich' areas and the 'poor' regions" (Institute for Government (2021)), and a series of further regional development measures followed between the 1960s and 1980s under successive industry and industrial development acts.

In 1998 the Blair government set up nine 'Regional development agencies' in English regions, only for these to be promptly abolished by the Conservative-Liberal Democrat coalition government in 2010 and replaced by 'local enterprise partnepships.' A major regional development initiative for the North of England, the "Northern Powerhouse," was then launched in 2014, with strong backing from George Osborne, the Chancellor of the Exchequer, but has lost momentum since Osborne left the government in 2016 (*Guardian* (2021)), another example of the fickle changes of priorities that bedevil long-term planning in Britain.[10] British policies have failed because more often than not they have not been pursued for long enough (*BBC Radio 4* (2021), Andy Haldane).

Successful regional development is a long haul. This is shown by Germany's record in raising the performance of the former East Germany over a period of 30 years, the turnaround of the fortunes of the Basque Country in Spain (*Financial Times* (2021A)), and the modernization of central and eastern European country economies since joining the EU in 2004 and 2007, as a result both of regional development funding and access to the single market.

The Institute for Fiscal Studies (IFS (2020), 364) summarizes the current typically confusing state of regional policy in Britain as follows: "At least seven separate place-based spending programmes exist in England alone, each with different aims, target areas and time frames, and with funding allocated to different bodies and levels of governance, including local authorities, local enterprise partnerships, and combined authorities." Research by the Local Government Association found even greater fragmentation in relation to the combined total of £23bn of public money spent on growth, regeneration and skills. This was spread across 70 different national funding streams and managed by 22 government departments and agencies (Local Government Association (2021)). Boris Johnson, too, remarked on the proliferation of intiatives in his 'levelling up' speech, saying that 40 different schemes or bodies had been set up to boost local or regional growth in the last 40 years. This gave the impression the government would rationalize more in future (Johnson (2021)). We shall see, but the plethora of schemes already brought in by his own government does not augur well.

Designing and implementing a coherent policy agenda to reduce the UK's entrenched regional inequalities could take decades before it has meaningful effects (IFS (2020), 345, UK2070 Commission (2020), Centre for Cities (2021), Nick Bowes). People close to the preparatory work are conscious of the long time scale (*BBC Radio 4* (2021), Andy Haldane, Centre for Cities (2020), Will Tanner), but is this appreciated more widely?

The second reason why British regional development policy has been less successful than Germany's is over-centralization. The UK is an extreme example of

10) A further instance was the abrupt scrapping of the Industrial Strategy Council set up by the May government in March 2021 and the subsuming of industrial policy under the Treasury's "Build Back Better" plan (Gov.UK (2021B)).

an overcentralized state. England, which represents 85% of the UK, is worst affected. Since the late 1990s Scotland, Wales and Northern Ireland have had certain decision-making powers devolved to them, and are now called 'devolved administrations,' each with its own parliamentary assembly. McCann points out that previously highly centralized countries such as France and Japan have made significant progress towards decentralization of local decision making over the past 25 years, whereas most of Britain has not (McCann (2021)). The following section will go into devolution in more detail, because the transfer of significant economic power to local government in England in particular is vital if 'levelling up' is to succeed (IFS (2020), 363). Martin Wolf of the *Financial Times* says that the most important lesson from the development of the Basque country in Spain is the need for the people who live in and are responsible for the region to have the freedom and the resources to make decisions (*Financial Times* (2021A)).

Although the UK and even just England on its own are economically very diverse, the extremely centralized administration means that local government has top-down, sectoral and unitary development policies imposed on it, in which Whitehall assumes it knows best what structures and policies are likely to work, although the conditions are different and many standard policies have failed (McCann (2021), *BBC Radio 4* (2021), Calvin Jones). Research shows that decentralized governance systems are associated with more inter-regionally equal growth patterns and less dominance by an individual city-region, without national growth being adversely affected. Thus, the enormous imbalances within the UK are probably closely related to its over-centralized governance system (McCann (2019)).

Germany benefited from the power-sharing federal constitution imposed by the allies after the war, but Britain has not practised what it preached back then with regard to its own regions, except to a limited extent with Scotland, Wales and Northern lreland (McCann (2020), Alan Harding; see also Rawlinson (2020) 173-175).

Finally, scale is a prerequisite of successful regional development programmes (*BBC Radio 4* (2021), Andy Haldane). How much public money is the present government committed to spending on the policy and how much will future ones be? To raise wages and productivity in East Germany from a third in 1990 to currently 86% of West German levels, the federal government spent €70bn a year on transport and education infrastructure, R&D, skills training, corporate retraining, business support, and land tenure. The total spend over 30 years exceeds €2tn, met partly by a solidarity surcharge (*Solidaritätszuschlag)* tax on all German adults. The UK 2070 Commission, an independent enquiry into how to reduce the UK's regional inequalities, came up with a detailed plan estimated to cost about £15bn a year over 25 years. The reaction was that it was far too expensive. Judging by Germany's experience, it is far too little (McCann (2020)).

Although the investment in East Germany has paid off, both economically – the productivity premium of the reunited Germany over the UK is now greater than that of West Germany over the UK in 1990 – and in terms of political stability, is the UK willing and able to take on additional financial commitments on such a scale, in the stretched financial climate after Brexit and the Covid pandemic, with inflation rising, energy costs surging and a "cost of living crisis" threatening the poorer members of society?

The official budget watchdog, the Office of Budget Responsibility, has forecast that Brexit will mean a long-term loss to the British economy of 4% of potential GDP and Covid a further 2% reduction (*BBC News* (2021A)). The Conservative party is traditionally a low-tax party but public spending reached an all-time high of 52% of GDP in 2020. Recently the government was forced to break an election manifesto pledge and raise taxes to pay for urgent reforms to the social care system, instituting a new social care levy which will raise £12bn a year. That is small beer compared with the German solidarity surcharge, but the government had a hard time getting it through. Yet to start dealing seriously with regional inequality, small sums will barely scratch the surface (Centre for Cities (2021), Carys Roberts, Nick Bowes, *Guardian* (2021A), (2021F), Andy Burnham).

Designing a coherent set of measures cannot be rushed. The planned white paper will just be the beginning (IFS (2020), 366). The UK's regional disparities are multifaceted, complex and deep-rooted. An effective 'levelling up' agenda would need to incorporate public investment, education and training, tax reform, planning law, devolution and many other policy areas (IFS (2020), 315, 345).

Here are some of the specific issues raised in the debate about 'levelling up' so far:

- Current spending, for example on skills, will be more important than infrastructure spending in some areas, and vice versa (IFS (2020), 362, *BBC Radio 4* (2021), Paul Swinney, Joanie Willett).

- Improvements in public services can be crucial. For example, outside London bus fares are prohibitively expensive, often three times as much as in London, and the service, where there is one, is infrequent (*Guardian* (2021), Neil O'Brien, and (2021F), Andy Burnham, *BBC Radio 4* (2021), Joanie Willett, Centre for Cities (2021), Nick Bowes).

- The green agenda must be incorporated into regional investment policies (Centre for Cities (2021), Carys Roberts, McCann (2021), Henry Kelly, EU Commission (2020)), as must social investment in child care, health and wellbeing, and skills and education (Centre for Cities (2021), Carys Roberts, McCann (2021), Alison McGovern).

- Local industrial strategies must aim to develop high-value tradeable sectors, not only boost local output and reduce unemployment (McCann (2020), Richard Jones, *Economist* (2017), criticising the EU structural funds for doing the latter).[11)]

- Spreading R&D is as important for the national economy as it is for regions (IFS (2020), 352, Haldane (2018)). "Allow other parts of the country to be viable options for economic activity rather than London," says Henry Kelly of Midlands Connect (McCann (2021), Henry Kelly).

- The balance of opinion among the experts is that the UK's second-tier cities and their hinterlands should be the main target in 'levelling up,' though isolated rural and coastal towns will need attention also (McCann (2020), Philip McCann, Richard Jones, Alan Harding, McCann (2021), Henry Kelly, *BBC Radio 4*, Paul Swinney, IFS (2020), 318, Institute for Government (2021))

- Local government will be an important vehicle for 'levelling up.' But local government funding has been severely cut back, affecting the resources they have for planning and local development. This problem should be rectified (IFS (2020), 363, McCann (2021), Alison

11) Unfairly, I feel. Sustainable economic development is always an objective on the EU side, but whether it is achieved depends on the duration of the funding and also the choices made by the national authorities.

McGovern). Local authorities should not have to waste scarce resources on bidding contests for pots of funding, with the government holding all the cards (Local Government Association (2021), Centre for Cities (2021), Carys Roberts).

- The design and implementation of programmes should avoid past mistakes, such as fragmentation, lack of coordination, and the appearance of political bias (IFS (2020), 361, 364, Institute for Government (2021)), and should not constantly reinvent the wheel but build on the experience with existing schemes, including those of the EU (IFS (2020), 364), and learning from experience not only from the Anglosphere but also, inter alia, from European countries which tend to have similar problems to the UK (McCann (2020). Multi-annual funding cycles, as with EU programmes, are advisable as they facilitate planning and implementation of long-term strategies (IFS (2020), 361-362).

- There are doubts about the effectiveness of enterprise zones with special tax reliefs such as free-ports, because they may displace economic activity from elsewhere, which is why the EU does not encourage them (*Economist* (2017). However, the government has made free-ports a flagship policy. Some scepticism is also felt about whether relocating civil servants will have significant benefits (IFS (2020), 354).

- Brexit is having a disproportionate effect actually on the 'Leave'-voting areas of the Midlands and North, as they are more dependent on EU trade than London and the South East (McCann (2021), IFS (2020), 343-345). The geographical impact of the Covid pandemic is different. It does not affect all 'left-behind' areas equally, and will also have an impact on some more prosperous areas in London and the South East (Local Government Association (2021), McCann (2020), *BBC Radio 4* (2021)).

- Regional development in neglected parts of the country will not detract from the prosperity of London and the South East; indeed, it will benefit them by reducing congestion and pressure on the capital and the surrounding area. 'Levelling up' is not a zero-sum game, but a win-win situation. A more balanced distribution of economic activity will be good for the whole country (McCann (2021), Philip McCann, Henry Kelly, Alison McGovern, *Guardian* (2021D), Centre for Cities (2021), Nick Bowes).

Finally, the formulation of the 'levelling up' policy should take account of the considerable body of work done by authoritative outside organizations like the Institute for Fiscal Studies, the Institute for Government, the Local Government Association, and others. The Institute for Fiscal Studies has proposed criteria to identify the 'left-behind' areas that need to be targeted by the 'levelling up' programme and those most affected by Brexit and Covid, which will also need to be considered (IFS (2020), 324-345). Other valuable work has been done by the independent UK2070 Commission, culminating in a ten-point action plan supported, explained and critiqued in numerous background papers which are published on its website. Similarly, the work of the House of Commons industry committee on industrial policy and that of the Industrial Strategy Council (abruptly terminated in March 2021) should be utilized and built upon, not shelved and forgotten, as unfortunately is the British administration's wont whenever the political mood changes (Gov.UK (2021B)).

2.5 Devolution

One of the most contentious aspects of the ‘levelling up’ policy is devolution, the decentralization of local planning and development powers to local and/or regional authorities, particularly in England. So difficult will this be that Philip McCann wishes it could be delegated to an independent cross-party commission, completely free of politics, with a broad remit to investigate everything related to devolution, including inter-regional fiscal stabilizers, the tax system and how it links with ‘devolved administrations’ (McCann (2021)).

The Conservative party manifesto for the 2019 election contained a commitment to “full devolution across England, building on the successful devolution of powers to city region mayors, Police and Crime Commissioners and others, so that every part of the country has the power to shape its own destiny” (Johnson (2019)). In his ‘levelling up’ speech Johnson admitted that Britain is one of the most centralized countries in the western world, and hinted at a further devolution push to towns and county councils, following on from the creation of metro mayors, and that there would not be a one-size-fits-all solution (Johnson (2021)). The government’s messages about devolution and the role of local government in ‘levelling up’ have been mixed, however (Institute for Government (2021)).

Andy Haldane, who is closely involved in the preparation of the ‘levelling up’ agenda, sees devolution as a top priority if the policy is to succeed – “local problems like regional development require local solutions and local agency”– proper devolution must include not only the transfer of responsibilities, but also money and adequate personnel.

Others are sceptical whether real devolution will happen. According to Calvin Jones, the UK has been a centralized state for 250 years and no party has ever willingly given away power (*BBC Radio 4* (2021), Calvin Jones). Central government in Britain “tends to throttle attempts to devolve power” (UK2070 Commission (2020)). The typical patronising reaction to proposals to devolve, say, R&D funding is that cities and regions don’t have the capacity to spend the money wisely (McCann (2020), Richard Jones, see also Centre for Cities (2021), Will Tanner).

Formerly centralized countries like France and Japan been through waves of devolution over the past 25 years, but Britain stubbornly sticks to its centralizing mindset (McCann (2021)). With the UK showing signs of disintegrating, its “highly centralized, top-down, largely space-blind and sectorally dominated governance system is almost uniquely ill-equipped to address this reality.” Local knowledge cannot get through to central government decision-makers who rely on the insights of a favoured few selected experts and think tanks, mostly in London (McCann (2019), McCann (2020)).

Britain is also one of the most fiscally centralized countries in the developed world. Councils (local authorities) in England are only able to levy two taxes, council tax and business rates. Both are subject to significant intervention and control by Whitehall. The two local taxes represent 4.9% of total taxation. For the OECD the average is 15.1%. Fiscal decentralization increases growth and GDP, and so would be in the country’s interest (Local Government Association (2021)).

Devolution to English regions has so far been piecemeal, erratic, with frequent changes of direction, and limited. There has been some progress, for example the combined mayoral authorities in Merseyside and Manchester with some economic planning functions, but more devolution is needed (McCann (2021), Alison McGovern).

The current state of relations between central and local government in England and between London and the ‘devolved administrations,’ however, is hardly a propitious starting point for working out a new devolution settlement. Relations have worsened in the course of the past 11 years of Conservative rule. The first seven years were marked by austerity, which placed a slow squeeze on local authority finances finally totalling 24%. This forced local authorities to make drastic cuts to local public services. Significant, but smaller cuts were made in fiscal transfers to Scotland and Wales.

More recently, during the Covid crisis, relations with English local and regional authorities have been further strained by the UK government's top-down decision making on lockdowns, and on functions like contact tracing, for which instead of taking up the offer of local government to help out with its local knowledge and expertise, it preferred to appoint private contractors who did a much poorer job (Denham (2020)).

With the ‘devolved administrations’ relations have been calmer during Covid, if not exactly collaborative, because the autonomy they have over public health policy has allowed them to take their own decisions. On the other hand, Brexit has led to a serious deterioration in relations between the UK government and the Scottish one over the latter's renewed calls for a second Scottish independence referendum, while relations with Northern Ireland have come under strain since the Johnson government agreed to the Northern Ireland Protocol as part of the Brexit agreement. The Protocol leaves Northern Ireland more isolated from the UK market than before Brexit because of new customs and regulatory checks at North Sea ports.

As regards the future shape of devolution in England as part of the ‘levelling up’ agenda, many in local government are pressing for a general framework for devolution, a minimum “devolution baseline,” also involving a fair funding formula to end the competition for small pots of money (Centre for Cities (2021), Carys Roberts, Nick Bowes, UK2070 Commission (2020)). This would replace the practice of negotiated devolution deals with local and regional authorities (Local Government Association (2021), Centre for Cities (2021), Nick Bowes, McCann (2020)).

Some authorities, such as the Greater Manchester combined authority, however, would prefer a more gradual evolution of their present arrangements, which are beginning to work well (McCann (2020), Alan Harding).

The UK2070 Commission has proposed six new big trans-regional (provincial) authorities in England. This is opposed by, among others, Andy Pike (Pike (2021)), on the ground that they would be too big to attract loyalty and could exacerbate the core-periphery problem (McCann (2021), Alison McGovern). McCann favours a well thought-out transition, learning lessons from other countries’ experience (McCann (2021)).

Applying the UK government's ‘levelling up’ priorities to the ‘devolved administrations’ will be complicated, because it will overlap with some of their existing economic planning powers. On the other hand, during Covid the ‘devolved administrations,’ for example the Welsh one, have demonstrated a capacity to take different decisions from England, and ‘levelling up’ would be an opportunity to expand this potential in further areas pertaining to local economic development (*BBC Radio 4* (2021), Calvin Jones). Furthermore, the new ‘levelling up’ devolution settlement for England could learn from the existing devolution arrangements in Scotland and Wales, to see what works and what is still needed (Centre for Cities (2021), Carys Roberts).

3. Conclusion

The belated realisation of the true extent of inter-regional inequalities in Britain and the government's embracing of a ‘levelling up’ agenda to reduce the loss of economic potential and the injustice such inequalities represent has generated much public debate. This has already produced a voluminous body of research, comment and proposals from academia and independent bodies seeking to influence the direction of the 'levelling up' agenda. In finalizing the policy, the government should make full use of this existing body of knowledge that its initiative has generated from multiple sources.

The 'levelling up' initiative could either peter out after failing to gain sufficient traction or encountering setbacks and obstacles, or it could form the basis of a long-term cross-party programme that will produce a more spatially balanced, less divided and more prosperous country. The obvious need for such a transformative programme and the penalties of not proceeding with it in terms of disappointed expectations having political repercussions, and in terms of further losses of economic potential and social cohesion, are such that, whatever the initial difficulties, the second alternative is more likely.

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