

RE-FORMING THE STATE

The upas tree: the over-development of London and the under-development of Britain

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If there is to be any economic rejuvenation of Britain's nations and regions, then Britain must become a federal state.

The problem with Britain is that it is dominated by a single city: London. In other countries with highly developed economies and societies, political, cultural and economic power is dispersed: think, for instance, of Frankfurt, Hamburg, Munich and Berlin; New York, Chicago, Los Angeles and Washington DC; Toronto, Ottawa, Montreal and Vancouver; Milan, Turin and Rome. Indeed, with the principal exceptions of France and Japan, the vast majority of the world's major developed economies (as well as its 'rising powers': China, India and Brazil) have similar spatial dispersals of power. This is so because, unlike Britain, they are federal states.

The historic concentration of power in London – exacerbated by its emergence as a finance-driven 'global city' – has led directly to the sorts of attitudes expressed in recent years by its political leaders. Witness its Deputy Mayor for Business, Kit Malthouse,

arguing in September 2013 that it would be more beneficial to the economies of Scotland, Wales and Northern Ireland if their governments spent their tourism budgets on promoting London, rather than their own nations (Boffey, 2013). In this, Malthouse was merely echoing his boss, London Mayor, Boris Johnson, who a year earlier had suggested to *The Huffington Post* that ‘a pound spent in Croydon is of far more value to the country than a pound spent in Strathclyde’ (*Guardian* 29.4.2012).

Putting to one side the metropolitan arrogance vis-à-vis the British nations (and, implicitly, English regions) that these suggestions reflect, they expose the trickle-down notions that underlie much mainstream thinking (of whatever political stripe) about London’s economic relations with the rest of the country. What’s good for London is good for Britain!

That conception, however, is highly contentious. The argument developed here starts from a more adequate understanding of reality and mobilises the Indonesian upas tree to symbolise London’s relation to Britain. The upas tree is a plant whose widespread branches produce a toxic sap that kills off anything that attempts to grow beneath them. London, historically but especially today, seems to have acted like the upas in respect to the rest of the country (1). Economically, politically, socially and culturally, London has become grossly over-developed and a consequence of its development process has been the systematic under-development of the rest of Britain. While London has helped to under-develop the British nations and regions asymmetrically, in England it is the North that has been most affected.

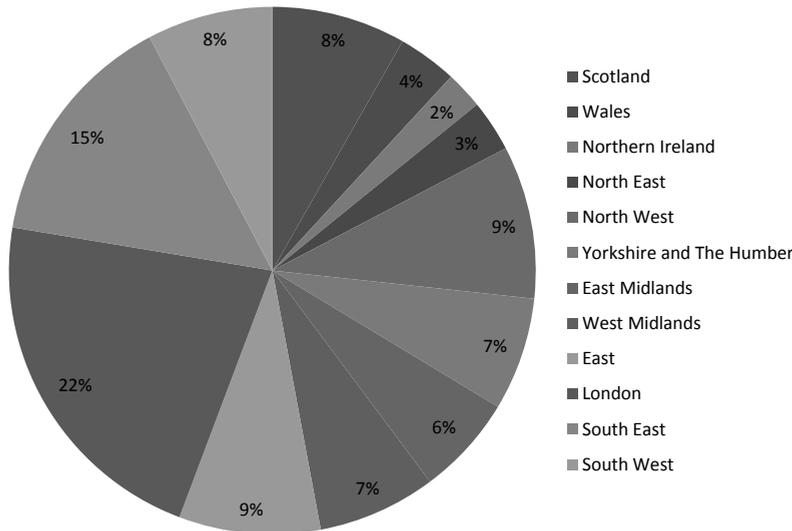
This article presents evidence to support the argument that London’s over-development and Britain’s under-development are two sides of the same coin. In so doing it focuses particularly on the North of England. It argues that while the dire economic circumstances of many of England’s regions and Britain’s nations are associated with the grossly unbalanced structure of the British economy, the latter is, in itself, a function of the centralisation of the British state. It goes on to investigate the regional consequences of state centralisation and ultimately argues that any prospect of substantial and sustainable economic rejuvenation in the regions and nations (whether or not Scotland remains in the union (2)), will depend on the re-formation of Britain as a federal state.

London and British under-development

Metropolitan and British government spokespersons undoubtedly would agree that parts of Britain are ‘under-developed’ relative to London and the South East and, in

the context of England, would probably dress this up in the language of the ‘North-South divide’. They would be quick to point out, however, that London is the economic powerhouse of Britain and thus essential to national prosperity. Indeed, there is plenty of evidence to suggest they would be right.

Figure 1 Regional Gross Value Added (GVA) as Percentage of UK, 2011-12



Source: ONS Region and Country Profiles: Key Statistics 19 June 2013

For instance, if we take gross value added (GVA measures the contribution of an individual producer, industry or sector to the UK economy) as a rough proxy for regional economic vitality, then we can see from Figure 1 that in 2011 London accounted for 22 per cent of the British total while, for instance, the North of England (that is, the North East, North West and Yorkshire and Humberside taken together) accounted for 19 per cent and the Midlands (West and East together) for 13 per cent (3). Not much in it one might think, at least between the North and London, until we realise that the North, with a population of nearly 15 million, has around 83 per cent more people than London (population, 8.2 million). Consequently London has a far higher GVA per head of population than the North (or, indeed, than anywhere in the country). There are good reasons for this – the higher proportion of people in the most economically productive age groups (partly thanks to London’s migrant workers) and generally higher levels of education being among them – but they do not fully explain the significant discrepancies involved. And if we reverse the logic implicit here, we can see how the North’s GVA/economic vitality in relation to

its population size, is in fact a measure of the North's (and in varying degrees the rest of the country's) economic under-development relative to London.

So what are the reasons for regional under-development? Unless we assume that the peoples of the North, Scotland, Wales, the Midlands, the South West etc. are lazy and congenitally less intelligent than their London counterparts, there are three key questions that need to be asked: how did this economic under-development occur; what are the processes that reproduce it today; and what should be done about it?

Social and political origins of our current condition

In our references to London we need to make it clear that throughout this paper our concern is not with the vast majority of London's population. Some of that city's communities are as economically and socially dispossessed as any in the country. Our concern is with a particular social class configuration that is spatially rooted in London and its immediate hinterland and that has come to dominate Britain's economic, political and cultural life. Our analysis begins with the historical origins of that metropolitan class configuration.

In their book, *British Imperialism*, Peter Cain and Tony Hopkins (2002) show that from the late seventeenth century through to the 1960s and beyond, the fortunes of London's economic and political elites were inextricably linked to Empire. Coming from the same class backgrounds (aristocratic and upper middle class) and educated at the same private schools, they emerged as 'gentlemanly capitalists' seeking the quick and easy routes to wealth afforded by the opportunities for financial and commercial speculation that was the British Empire. Not for them the hard work of industrial entrepreneurship with its benefits only in the longer term. That was for the 'strange' people (with even stranger accents) from Wolverhampton and Bolton and from Doncaster, Sunderland and Greenock.

Though the British Empire was fatally weakened by the legacies of the Second World War and killed off in the 1950s and 1960s, the penchant of London's economic elite for financial and commercial speculation was not. On the contrary, it went from strength to strength as London became a global city and financial services, in particular, became proportionately an ever more important component of its economy. Kept in check by national and international controls on currency and investment flows until the early 1980s, London's banks and other financial institutions were released by the Thatcher government – and every succeeding one – to help build, not merely in Britain but worldwide, what Susan Strange (1986) termed

‘casino capitalism’. Inherently unstable and destructive, privileging wealth and greed over all other values and dubbed ‘socially useless’ by the former head of the Financial Services Authority, Adair Turner, by 2008 its consequences were laid bare for all to see.

London-centred financial services had played a key role in the decline of Britain’s industrial base (those economic sectors essential to the vitality of the Midlands, the North, Scotland, Wales and Northern Ireland) long before the onset of Thatcherite neo-liberalism. Though not the only destructive corporate influences, as Best and Humphries (1986) show, from the late nineteenth century through the inter-war period, when British manufacturing companies were coming under increasing pressure from US, German and other competitors, British financial institutions – because of their obsession with short term profitability – refused to become engaged in helping to drive the long term industrial restructuring that was needed:

‘(It) was in its inability to become a dynamic force in the reorganisation of basic industry that, in comparative and relative terms, the British financial system “failed”’ (Best and Humphries, 1986, 237).

To this failure we might add another: the failure of successive British governments – both before and after 1945 – to encourage and ensure that financial institutions became committed to helping build the long-term (and necessarily innovation-driven) competitiveness of the British economy. This certainly happened in the US, Germany, France and subsequently Japan and South Korea, among many others. So why not in Britain? Why, in other words, have our governments allowed British financial institutions, over a considerable period of time, to engage in investment decisions and practices that are contrary to the interests of the vast majority of the population (and, as such, are essentially unpatriotic)? The answer, in part, lies in the peculiarities of the configuration of elite political-economic interests and power that is encapsulated in London.

Today, the legacies of this double failure are even more serious. London’s financial institutions – unlike those of Germany, France or Japan – remain wedded to speculative rather than productive investment and to global investment opportunities rather than those likely to directly benefit the majority of the British population. With lobbying power organised via the shadowy (and possibly shady) operations of the City of London Corporation – which has an informal (but effective) right of veto over government legislation that might adversely affect financial interests (Glasman, 2012) – it is hardly surprising that the influence of financial institutions over

successive governments, whatever the party in office, has been maintained. The consequence has been that with the partial exceptions of the Attlee and Wilson administrations in the late 1940s/early 1950s and 1960s respectively, national economic policy has continued to be predominantly fashioned in the interests of London's internationally-oriented elite groups. Now integrated with other London-based, but non-domiciled members of what Leslie Sklair (2001) calls the 'transnational capitalist class', these groups continue to thrive on financial and, since the 1980s in particular, property-market speculation.

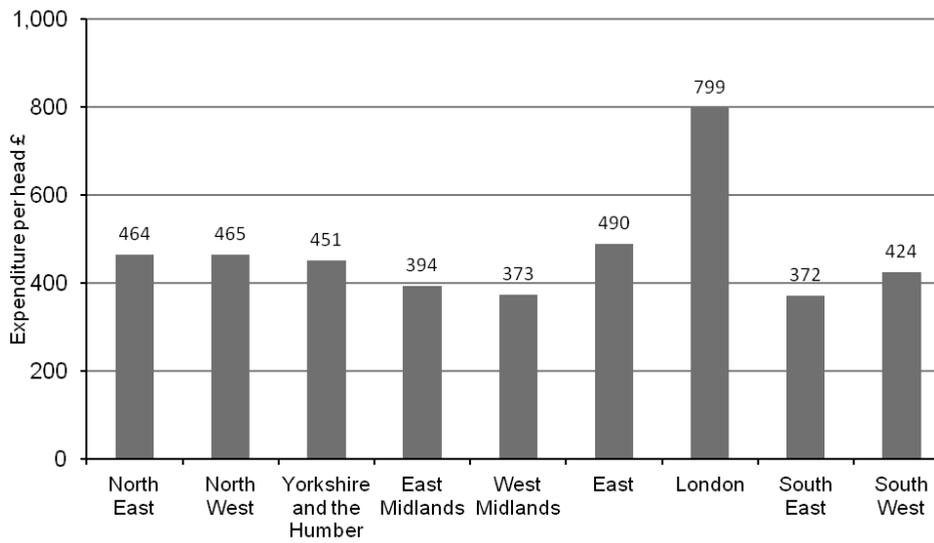
The interests of this London elite are, of course, special interests. Justified by neo-classical, 'free-market' economic theory, however, government after government, directly or implicitly, has claimed that protecting and enhancing these special interests is, in fact, in the 'national interest'. The refusal of the current government to break up the big banks after the 2008 crisis, countenance EU restrictions on management bonuses or the introduction of a 'Tobin tax' (designed to limit perpetual asset churning and thus large scale investment risk), are but the latest indications that when it comes to economic policy, the default position of British governments is to act in the interests of speculators.

Just as financial and property market speculation is not in the interests of even the majority of London's population, it is certainly not in the interests of the populations of the North or of other regions. But because Britain has a centralised state, and successive Westminster governments have developed policies for the British economy as a whole that, at root, have predominantly addressed the narrow interests of the London elites, most of Britain – with its dramatically different regional economic structures and needs – has been subject to inappropriate economic policies. What the rest of the country needs is policies and financial arrangements that help drive productive and innovative activities; the only sort capable of delivering high wage economies with low levels of inequality. In the absence of such policies – in other words in the absence of strategic economic planning – British companies have been left largely to their own devices. As a result, the 'financialised mentality' of most British senior managers and their obsessions with increasing 'shareholder value' have been allowed free rein. From this lethal combination of a centralised state with a peculiarly British 'gentlemanly capitalism' – now entrenched in its neo-liberal form – has come the lot of the majority of the peoples of the North, the Midlands, Scotland and other parts of Britain: economic and social dispossession.

London takes the lion's share

In tracking the relation between London's over-development and Britain's under-development, the differential share of central government funding that flows to London vis-à-vis the regions is symptomatic of the problem and contributes to it. The following data are instructive.

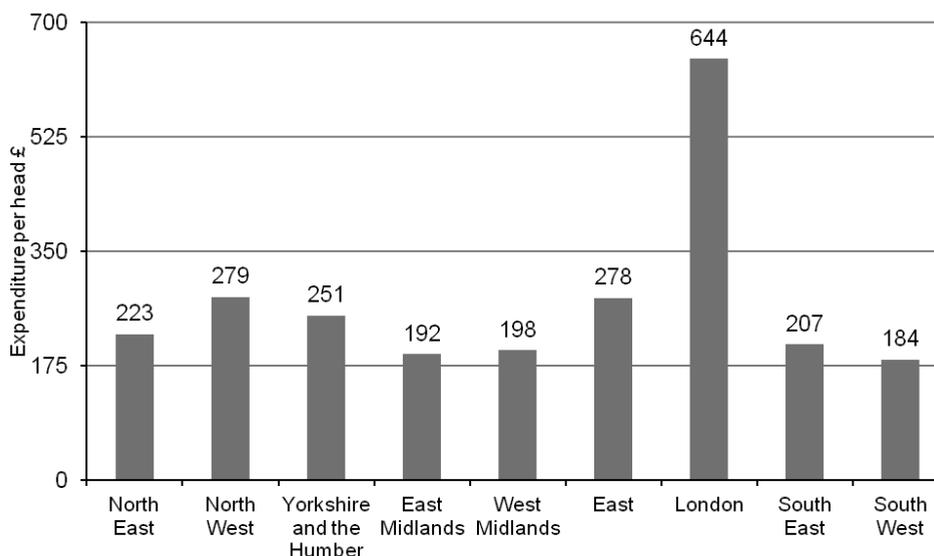
Figure 2: Public expenditure on economic affairs per head of population by region, 2011-12



Source: HM Treasury (2013)

Figure 2 indicates the per capita amounts of central government funds that went to support economic affairs in London and the English regions in 2011-12. When we recognise that 'economic affairs' includes enterprise, science and technology, employment policies and transport – and so we are talking about expenditure necessary for developing the economy – we get a measure of the extent to which London is privileged by central government budgetary policy. In that financial year (which does not appear to have been unusual) London received nearly 74 per cent more funding than the North, 88 per cent more than the South West and a whopping 108 per cent more than the Midlands. Taking England as a whole, central government expenditure on London's economic development was 86 per cent higher, per head of population, than the average for the rest of the nation.

Figure 3: Public expenditure on transport per head of population by region, 2011-12



Source: HM Treasury (2013)

When we focus specifically on transport, the differentials become even starker. Figure 3 shows that in 2011-12 the central government spent 157 per cent more per capita on transport in London than it spent on transport in the North, 230 per cent more than in the Midlands and 250 per cent more than in the South West. For England as a whole, central government transport expenditure on London was, on average, 184 per cent higher per capita than for the rest of the nation.

If this was not bad enough, research by the Institute of Public Policy Research (IPPR North, 2013) indicates that, of currently planned regional transport infrastructure projects in England that involve central government funding, 66.5 per cent of the total expenditure is committed to London, while only 2 per cent is committed to the North. So staggering is this differential that it is worth repeating that the North has a population 83 per cent higher than London!

If we look at central government funding that flows to the arts and culture, similar discrepancies are evident. Of the £320 million that the Arts Council distributed in England in the 2011-12 financial year, £20 per head went to London while only £3.60 went to the rest of the nation. In that same year, the Department of Culture, Media and Sport allocated £450 million to major national cultural institutions. Of that, £49 per capita went to London but only £1 per head went to the rest of England (Stark et al., 2013). Even with the recent cut in the funding for major arts and

cultural institutions in London, the differential between London and the rest of England remains very substantial (*Guardian* 2.7.2014).

It seems clear from these figures that the privileging of London in the policies and budgetary calculations of British governments has compounded the problems that have stemmed from the historic disinvestment of private capital in the nations and regions. Indeed, it seems likely that central government preferences have sometimes helped create a context in which disinvestment may have been encouraged (for instance, the persistent demonising of workers and trade unions rather than encouraging their involvement in reformed, more consensual systems of corporate governance). Be that as it may, one of the consequences of the long-term absence of a coherent strategy for economic rejuvenation outside of London has been a deepening of economic and social dispossession and with it, a growing disillusionment with the mainstream political parties. Once the mystifications have been stripped away, it seems clear that support for UKIP stems not so much from a concern with EU migrants supposedly taking British workers' jobs or from the xenophobia and racism sometimes associated with such concerns. It stems, at root, from the anxieties that inevitably arise when there is a lack of secure, well-paid and locally available jobs.

Towards regional economic rejuvenation I – how *not* to pull it off

Our argument thus far is that the confluence in London of particular class interests with one of the world's most centralised states has led to economic policies and budgetary preferences that have been inappropriate for other parts of the country (4). As such, they have contributed to the stagnation and under-development of the British nations and many of the English regions. However, this has clearly not meant there has been an absence of regionally-related initiatives in pursuit of economic rejuvenation. Indeed, British economic history of the last few decades has been replete with examples of the limited ways in which the centralised state – hostage as it is to metropolitan economic interests – has attempted to respond to dispossession and under-development in the regions and nations. It is worth discussing some of these initiatives in detail as they help to highlight both the political constraints on regional economic rejuvenation that stem from the character of the British state, and the uncoordinated and sometimes chaotic nature of the institutions and policies that have emerged from it.

Pre-existing initiatives

In 1994 the then Conservative government set up nine Government Offices for the English Regions (GOs) (5). The GOs were designed to improve coordination of government policies at the regional level, with an emphasis on regenerating local communities, improving employment prospects and skill levels, and tackling housing needs. Though the GOs were not intended to devolve power to the regions, their establishment at least signified that the central government recognised the differences among the regions and the benefits of trying to attune policies to regional circumstances.

Seemingly without thinking through the possible relation of the GOs to other initiatives, in 1999 the then Labour government launched the Regional Development Agencies (RDAs). Given the structural constraints that emanate from the nature of the British state, these can be seen as the first serious attempt to address regional economic disparities. The potential of the RDAs, however, was shackled by the fact that they did not have the power to raise their own funds and thus were reliant on funding regimes formulated by the central government. According to an evaluation by the National Audit Office, ten years into their operation, RDAs were starting to make a real difference in the regions. The NAO found that for every pound the RDAs spent on physical regeneration, an additional £2.80 was secured from other partners/agencies in the region. Of the £2.80, over half (£1.51) was from the private sector. In terms of Gross Value Added, it was estimated that £3.30 was added to every pound spent by RDAs. The NAO concluded that the RDAs' physical regeneration projects had clearly helped to generate growth in the regions. What is more, according to the NAO report, 'many of these projects will not realise their full benefits for many years, and independent evaluation suggests a potential return over their full lives of £8 for every pound spent' (NAO, 2010).

Though the relative success of the RDAs was helped by the fact that they enjoyed a stable existence for a decade after their establishment, there were two inherent restrictions that limited their potential. First, the RDAs were required to prepare their Regional Economic Strategies in accordance with national economic development policy and the Treasury's economic forecasts. In other words, while RDAs were set-up to tackle the specificities of regional economic problems, these had to be handled within parameters set by the central government. Second, as the NAO report points out, RDAs did not have direct influence over all central government funding in their regions. As a result, it was difficult for them to develop the integrated approaches necessary to maximise their regional economic impacts.

The next bright idea of the Labour government was Regional Funding Allocations (RFAs). Established in 2005, the RFA process was an attempt to enhance regional inputs in formulating strategic visions for their respective economies. By combining funding streams for economic development, housing, transport and skills, the regions were invited to advise respective ministers on how these resources should be spent at the regional level. There was scope for transferring allocations from one funding stream to another and the possibility to defer funding in order to combine resources for future large-scale projects. According to an in-depth evaluation of the impact of RFAs, however, while there was more awareness among ministers and Whitehall officials of the benefits of decentralisation, RFAs ‘represented “tinkering around the edges” rather than any fundamental transfer of fiscal autonomy or devolution of power’ (Ayres and Stafford, 2011, 341).

The current Conservative-led government abandoned the RFA process and closed the GOs. Unfortunately for the RDAs, under the banner of a bonfire of quangos, the proverbial baby went out with the bath water. The current government abolished this promising regional initiative under legislation in 2010 and the RDAs ceased their operations in 2012. The fate of these various regional initiatives suggests that when developed and controlled by central government in a London-dominated centralised state, their success – and indeed, survival – is inevitably dependent to the whims of whatever party forms the central government.

Current initiatives

In the place of RDAs, we now have Local Enterprise Partnerships (LEPs). LEPs have been a huge step backwards in terms of regional economic development. They are partnerships advocated by local authorities and incorporate local businesses to promote economic development. But compared to RDAs, LEPs are much smaller in their geographical coverage, their remits and funding. Inevitably this constrains their capacities for success. The boundaries of some LEPs overlap with those of the City Regions. The resultant ‘City Deals’ consolidate the City Region as the current government’s ‘big idea’ when it comes to regional development (6).

It must be said that there are many positives about City Regions. For example, the Leeds City Region has a vision to improve transport connectivity across northern England. If this vision comes to fruition, it will help promote cooperation among the regions and provide improved transport links, which are an essential support for production chains across the North and a prerequisite for sustainable economic

growth there. The proposal to set up a ‘Capital Fund Pot’ – to support development initiatives – is also in the right direction. It recognises that in order to help drive economic development, more autonomy in capital spending is essential.

Other initiatives also tinker with funding streams in the City Regions. In Greater Manchester, the introduction of ‘earn back’ is based on the government’s model of payment by results. It is a 30-year deal and will ‘earn back’ up to £30 million a year for Greater Manchester from increased business rates. ‘Earn back’ monies can be reinvested in such things as transport infrastructure. In the Newcastle and Sheffield City Regions, funds can be raised for critical infrastructure by tax increment financing. They also have the ability to borrow against future business rate income in key development zones.

To further consolidate the City Region arrangements, Combined Authorities were subsequently introduced as a new governance model. The first one was the Greater Manchester Combined Authority, established in 2011, and its West Yorkshire counterpart was constituted in April 2014. Unlike the LEPs, which are partnerships, allowing local authorities to be part of more than one LEP, Combined Authorities are legal entities and each local authority can only be part of one of them. So, some semblance of administrative coherence there then? Well, in some cases, yes, but in others, no.

In Greater Manchester, this model works well as the ten local authorities have a history of cooperation going back to 1986, when the Greater Manchester County Council was abolished. In West Yorkshire, however, the Combined Authority seems destined for, at best, incoherence. For instance, the ‘Leeds City Region Leaders’ Board’ was constituted in 2007. It consists of representatives of ten districts in West and North Yorkshire. The boundaries of the LEP and the City Region are one and the same. The West Yorkshire Combined Authority, however – of which Leeds is a part – covers only five of these districts. The Leeds City Region Deal proposal states that other local authorities will have the opportunity to join in the future and the Combined Authority could expand to cover the whole of the City Region: i.e. become coterminous with it and with the LEP (Leeds City Region, 2012). In the meantime, it is down to the local leaders to work out how best to navigate the anomalies. Given that a coherent and authoritative governance system is a necessity for the development and application of effective economic strategies, the prospects for economic rejuvenation do not look good for the people of West Yorkshire, and perhaps for some elsewhere.

Current initiatives are insufficient

Whatever the benefits for economic development that may be derived from these piecemeal initiatives, the crux of the matter is that for at least the last 40 years (since the formation of the metropolitan county councils in 1974 and their abolition in the 1980s) this continuous chopping and changing of governance models at the local, sub-regional and regional levels – at the behest of central government (for whatever functional and/or ideological purposes) – has wasted a lot of time, energy, resources and institutional capacities that could have been channelled into much better and more productive activities. Had there been a regional governance system with explicit commitments to strategic economic planning, it could have helped moderate the processes of deindustrialisation and economic stagnation that have destroyed communities and delivered many of the social problems we confront today. While economic planning is essential to the possibilities of economic rejuvenation in the North, the Midlands and other dispossessed regions and nations, current governance arrangements do not augur well for its prospects for success.

While it is recognised that City Regions, relative to earlier local government arrangements, enjoy a higher level of autonomy with regard to prioritising resource allocation, they have serious limitations if the goal is ‘rebalancing’ the British economy and with this, economic rejuvenation. First, City Regions do not have the authority to autonomously raise revenues and thus remain constrained in their capacities to direct their finances into economically productive activities. As the National Audit Office noted in its evaluation of the now defunct RDAs, without financial autonomy, integrated and coherent approaches to economic development – such as by the City Regions – become difficult and the maximisation of benefits near impossible. Second, as most of the funds for City Regions come from central government, the policy parameters they are obliged to work with are set within the national economic policy framework. As we have argued, the deep – and increasing problematic – economic asymmetries between London (and its south-eastern hinterland) and the other regions, almost certainly mean that a London-influenced national economic policy is inappropriate to the economic needs of the North and the other regions. Third, the City Region model may facilitate cooperation and collaboration between local authorities and businesses within the given region, but what about cooperation between city regions? Will this happen, or is it more likely that it will lead to inter-city-regional rivalries when they need to compete for scarce resources? Far better, surely, to have a trans-regional governance authority capable of mediating between competing City

Region interests and developing coherent, region-wide, autonomously-financed economic planning capacities.

Possible future initiatives will also be insufficient

Recent months have seen the publication of two reports that are likely to influence the economic policy of a future Labour Government (Adonis Review, 2014, Local Government Innovation Task Force, 2014). Both of them acknowledge the uncoordinated nature of current sub-regional initiatives to promote economic development. Both reports also recognise that, in spite of the Westminster government's pronouncements about the need for spatial dispersals of power and resources, these have remained concentrated under the control of central government. While the local government report (the 'Leese Report') focuses on the need to properly decentralise and locally empower public service delivery (including services related to employment), the Adonis Report focuses on how the existing sub-regional institutions – Local Enterprise Partnerships (LEPs) and Combined Authorities (CAs) – can be rendered fit for the purposes of rejuvenating local economies.

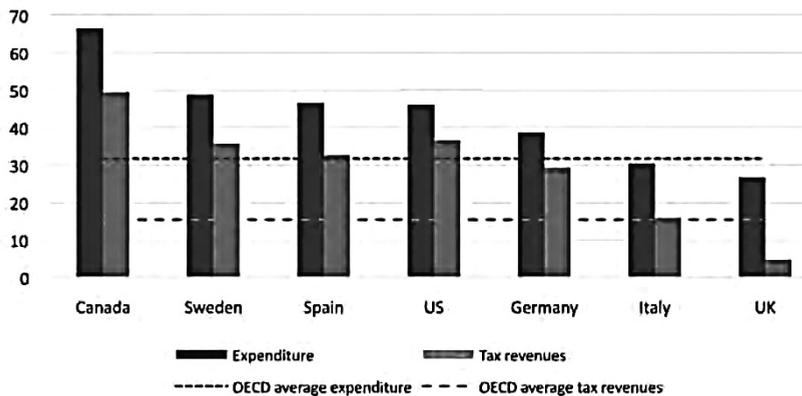
The Adonis Report recognises many of the problems we have indicated above, including those of institutional incoherence and lack of financial control. It seeks to expand the numbers of CAs and render the LEPs coterminous with them. It argues for a greater devolution of resources from central government and for the CAs to be allowed increased autonomy over their tax base (specifically business rates) and the use of those revenues. It seeks to encourage coordinated forms of cooperation between business, universities, local governments, central government departments and other agencies in the interests of formulating spatially-targeted industrial policies designed to drive innovation, create jobs, boost exports etc (7).

Missing from the report, however, is engagement with the other key issues that current arrangements fail to address. For instance, it does not discuss the potentially vital issue of who – institutionally – coordinates industrial policy formation across the regionally proximate CAs and LEPs and adjudicates the conflicts of interest that will inevitably arise between them (say, between the Greater Manchester and Liverpool CAs); who, in other words, will be responsible for the region-wide economic planning that will be necessary? Additionally, there is no acknowledgement in the report that under its proposals sub-regional economic development will continue to rely largely on financial disbursements from central government, as even the entire business levy is unlikely to generate the level of funding necessary, given the enormity of the economic problems that confront some of the regions.

What is more, the report pays no attention to the fact that, however successful its proposals might be, were they to be implemented, they would still be vulnerable to the ideologies and preferences of whatever party was in office in Westminster, just as the RDAs were. They would have no guarantee of long-term continuity.

The ultimate problem with the report, however, is that it does not understand that building the ‘smarter’ state with which it is concerned cannot be achieved in context of the fundamentally pre-modern state with which we are lumbered. A smarter state requires the formation of a *different* state. It was probably the inability (or refusal) to appreciate how closely linked these questions are that led Adonis and his colleagues to a revealing intellectual sleight of hand. In a section concerned to show that the UK is far below other wealthy (OECD) countries in financing local and regional expenditure from local taxes (a key measure of relative autonomy), the report presents the following chart.

Figure 4: Local and regional government’s share of total government expenditure and tax revenues, 2011 (%)



Source: Chart 5.1, Adonis Review (2014, 48)

What the report fails to point out is that, with the exception of Sweden (which, in any case, is far more decentralised than Britain), all of the other countries shown in Figure 4 have federal states. It is this reality that accounts for most of their variance compared to Britain.

Towards economic rejuvenation II – what needs to be done?

After more than 40 years of deindustrialisation, increasing inequality and poverty, a widening North-South divide (or whatever terminological construct we might

place upon the social and economic fracturing of Britain), the fundamental issue for the people of the North, the Midlands, Scotland and, in varying degrees, those of every English region and British nation, is the need for structural economic transformation. We need to be clear that this is not merely about economic growth. We have had plenty of that, but built – and in the current period now being re-built – on weak foundations: financial and property market speculation, low value-added and thus low wage service industries etc. It is also about how to develop our regional economies in such a way that they – and when aggregated, the country as a whole – become capable of delivering generalised and sustainable prosperity with low levels of inequality. If this can be done, then the country's deepening social disintegration, and many of the problems it has caused (including increased support for UKIP and other far right political programmes), can be halted and reversed.

For the North, the Midlands and some other regions, radical economic transformation of their economies is necessary. Specifically, these regions need to be *re-industrialised*. While this may well involve the upgrading (technological and innovation-deepening) of existing manufacturing industries, it will also involve the encouragement of new, skill and knowledge-based ones associated, perhaps, with bio-technologies, new materials (such as the super thin, light and strong, graphene, invented at Manchester University), specialised engineering, cutting-edge electronics, low carbon energy and new types of transport equipment, and the various manufacturing related, high-end service industries that will need to be associated with them. To effect the re-industrialisation of the North and similar regions, companies engaging in new and more innovative activities, weaned off the financialised mentality of senior executives that has so damaged Britain, will need to be forged and their collective interests and those of the communities in which they are located, 'orchestrated'. The history of global capitalism tells us that this can only be done with the help of governmental institutions capable of strategic economic planning; institutions that in the North and elsewhere may wish to draw inspiration from some of the most successful examples of dynamic industrial capitalism – with relatively low inequality – in Europe (for instance Germany, Austria, Sweden, and Finland) and elsewhere – South Korea or Taiwan perhaps (see Henderson, 1993, 2005; Vartiainen, 1995). For the reasons explored here, Westminster governments are incapable of building the institutional capacities necessary for this task. As a consequence, a new type of British state is needed.

Re-formation of the British State

With London working predominantly to the rhythms of the global not the national economy (and to its 'casino' aspects in particular), central government – irrespective of governing party – has lacked the intellectual vision and political will needed to help deliver economic re-structuring. Westminster policy long ago became incompatible with building high performing, skill intensive manufacturing and related industries – the only ones capable of delivering the high wage, sustainable and egalitarian economies that the North, the Midlands and the other regions need.

Other than Japan, Britain has probably the most centralised state system of any major country in the world. With this has come the concentration of economic, political and cultural power in London. To develop the vision and political will needed to rejuvenate the regions and the nations, the peoples of Britain consequently cannot rely on Westminster. Regional Britons will have to take political responsibility for their own back yards. To paraphrase Bob Marley, they will metaphorically have to 'cut the big tree down' (8) (restrict its influence). While the City Region, Combined Authorities and related initiatives are useful steps forward, after decades of neglect of the North and elsewhere, they are insufficient to the now considerable task of economic transformation. This is because they ultimately exist at the behest of central government (and thus could be dismantled should the government change) and do not have the financial autonomy – and thus the prospects of building and sustaining the institutional capacity – necessary to help drive and co-ordinate economic rejuvenation across the northern and other regions. With a population of 15 million, a political culture more similar to Scotland and Wales than to Southern England, and a GDP that even in its current, economically depressed condition, would make the North – were it a separate, sovereign state – the eighth largest economy in the EU (Northern Economic Futures Commission, 2012, 4), the North, in the English context, may well need to take the lead in arguing for the sort of political transformation of the British state that is fundamental to economic transformation.

As with Scotland, should it remain within the UK, the development of prosperous, egalitarian economies in the English regions, as well as in Wales and Northern Ireland, will require maximum devolution. We will need, in other words, the re-formation of the entire British state. In order to prevent reversals by future central governments, the re-formation of Britain will need to be secured with a written constitution. Without one, political and economic power will continue to reside in London and regional initiatives a Labour government may wish to institute will run the risk of ultimately being scuppered.

There are compelling reasons why a constitutional re-making of the British state is long overdue (and the debate over the future of Scotland is forcing them to the foreground). Among those is the fact that economic transformation of the sort necessary in the North and other regions cannot be left to ‘market forces’ alone: companies responding to profit signals. Such signals are currently insufficient to entice private investment into the sorts of industries, research, education and training that is necessary. Consequently, transformation will require a state capable of working with businesses, trade unions and communities to become a collective industrial entrepreneur. Allied with regional development banks supplying venture capital, it will need to be a state able to raise most of its own finance and develop the democratic legitimacy, intellectual capacity and political will to engage in strategic economic planning. Short of a sovereign state, only a regional state that is part of a federal system (as with the German Länder or US or Canadian states) is able to develop those types of attributes and functions. This is why the British people need – and deserve – such a federal state.

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Notes

1. In our use of the upas tree we are indebted to the late Sydney Checkland who first used it as an economic metaphor in his book on the industrial development of Glasgow (Checkland, 1976).

2. This paper was completed in July 2014, prior to the referendum on Scottish independence.
3. Subsequent references to the North and the Midlands imply the amalgamations of these 'official' regions as used in government data.
4. Some of them – notoriously housing policy – have also been inappropriate for large numbers of London's population.
5. East Midlands, East England, North East, North West, South East, South West, West Midlands, Yorkshire and the Humber, and London.
6. The first wave of City Deals covered eight city regions in England: Liverpool, Greater Manchester, Leeds, Sheffield, Newcastle, Nottingham, Greater Birmingham and Bristol and the West of England (Cabinet Office, 2012).
7. The potentially significant role of trade unions and community organisations in this mix is almost totally ignored. While the report contains a chapter on the 'view from business', one searches in vain for a 'view from organised labour'.
8. Lyrics to 'Small Axe' on The Wailers album, *Burnin'* (Island Records, 1973).