

# Fiscal Decentralisation and Levelling Up

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# UK Regional Inequalities

- Problems of the interaction between *geography, globalisation and governance*, and also the differing *perceptions* of how these interact – governance is also about perceptions
- The UK’s ultra-centralised, top-down and space-blind governance system is uniquely mis-matched, badly-designed and ill-equipped to respond to these internal inequalities
- Philip McCann, 2016, *The UK Regional-National Economic Problem: Geography, Globalisation and Governance*, Routledge, London, 570pp
- Philip McCann, 2019, “Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK”, 2019, *Regional Studies*, 53.5, 741–760

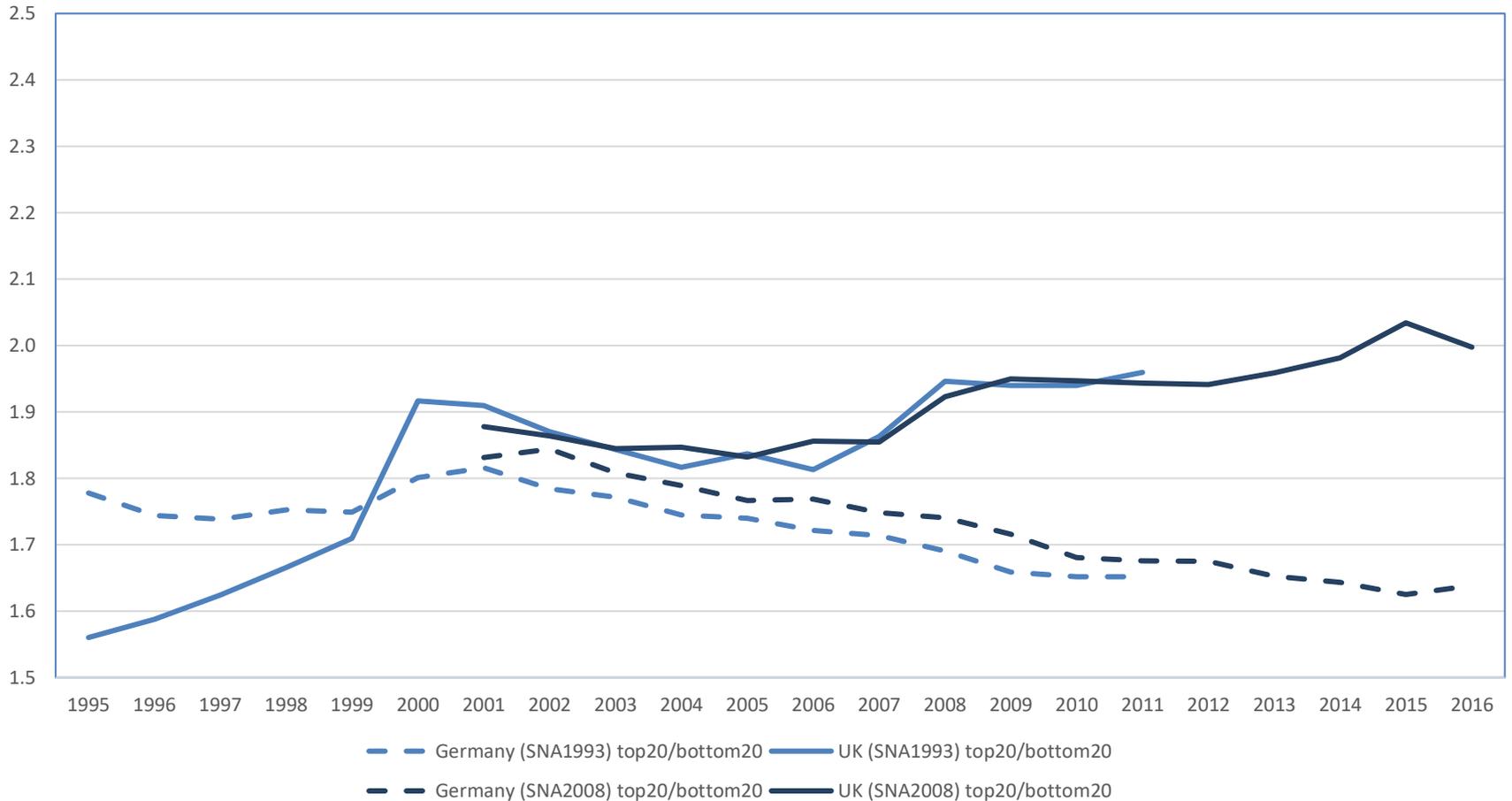
# UK Regional Inequalities

- UK internal interregional inequalities are very high by international standards
- Not ‘urban vs rural’; not ‘big city vs small town’
- Spatial partitioning – ‘core versus periphery’: London & hinterland vs the rest of the UK (east of Scotland excepted)
- Partitioning of tradeables vs non-tradeables
- “Hub with no Spokes” - Haldane

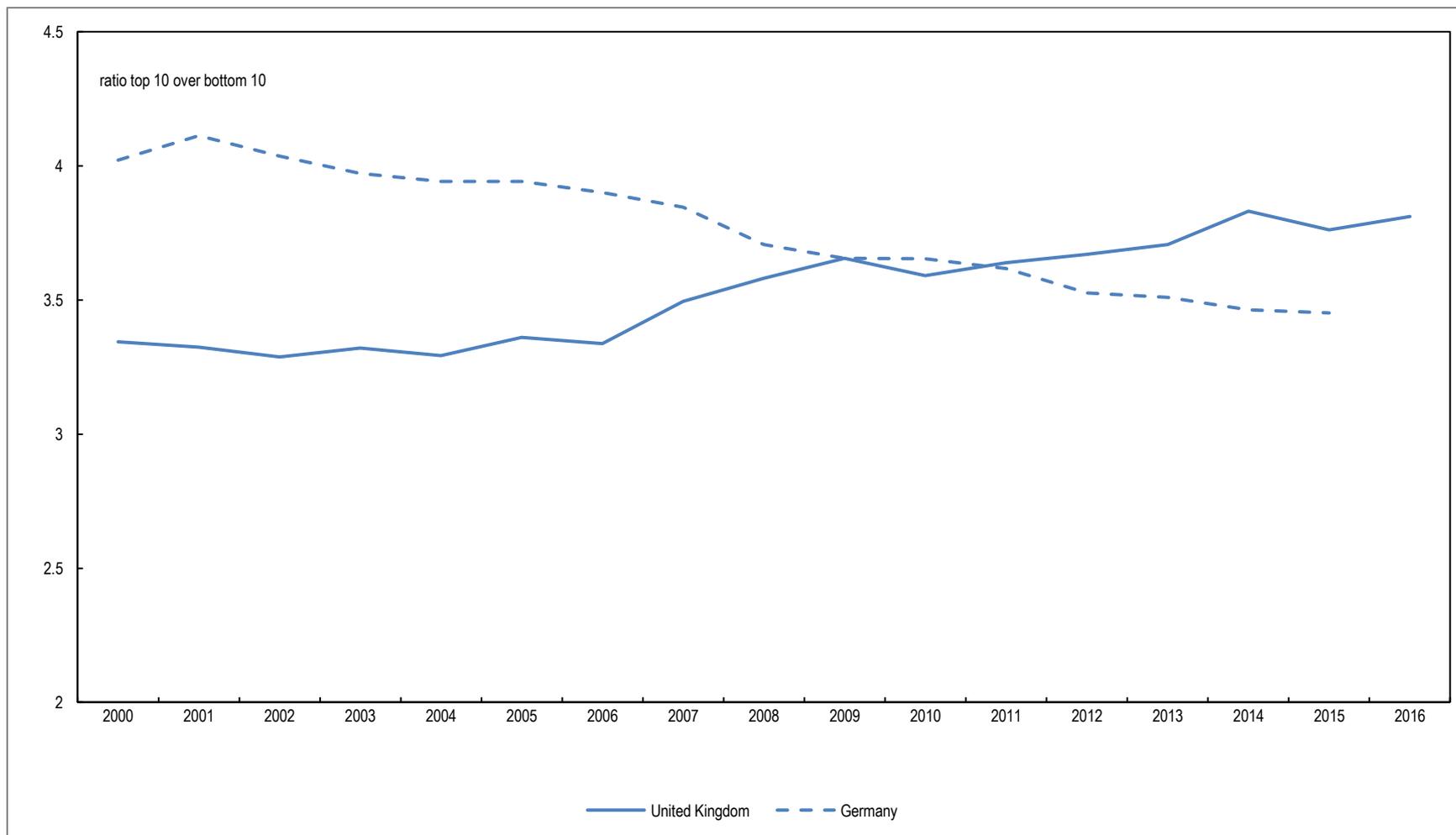
# UK Regional Inequalities

- GDP per capita – half the UK population live in areas no better than the poorer parts of the former East Germany, poorer than parts of central and eastern Europe, and poorer than the US states of Mississippi and West Virginia
- OECD Multi-Dimensional Quality of Life: SE top 25%; L, SW, E top 50%; rest of UK bottom 50% – equivalent to Alabama
- Quality and accessibility of healthcare outside of the south is similar to eastern Europe
- Civic engagement: SW & SE Top 50%, Rest of UK lower 3<sup>rd</sup> quartile – OECD ranking 34<sup>th</sup> for trust in central government
- Heritage allocations, R&D funding distributions
- UK local governance autonomy equivalent to small eastern European countries

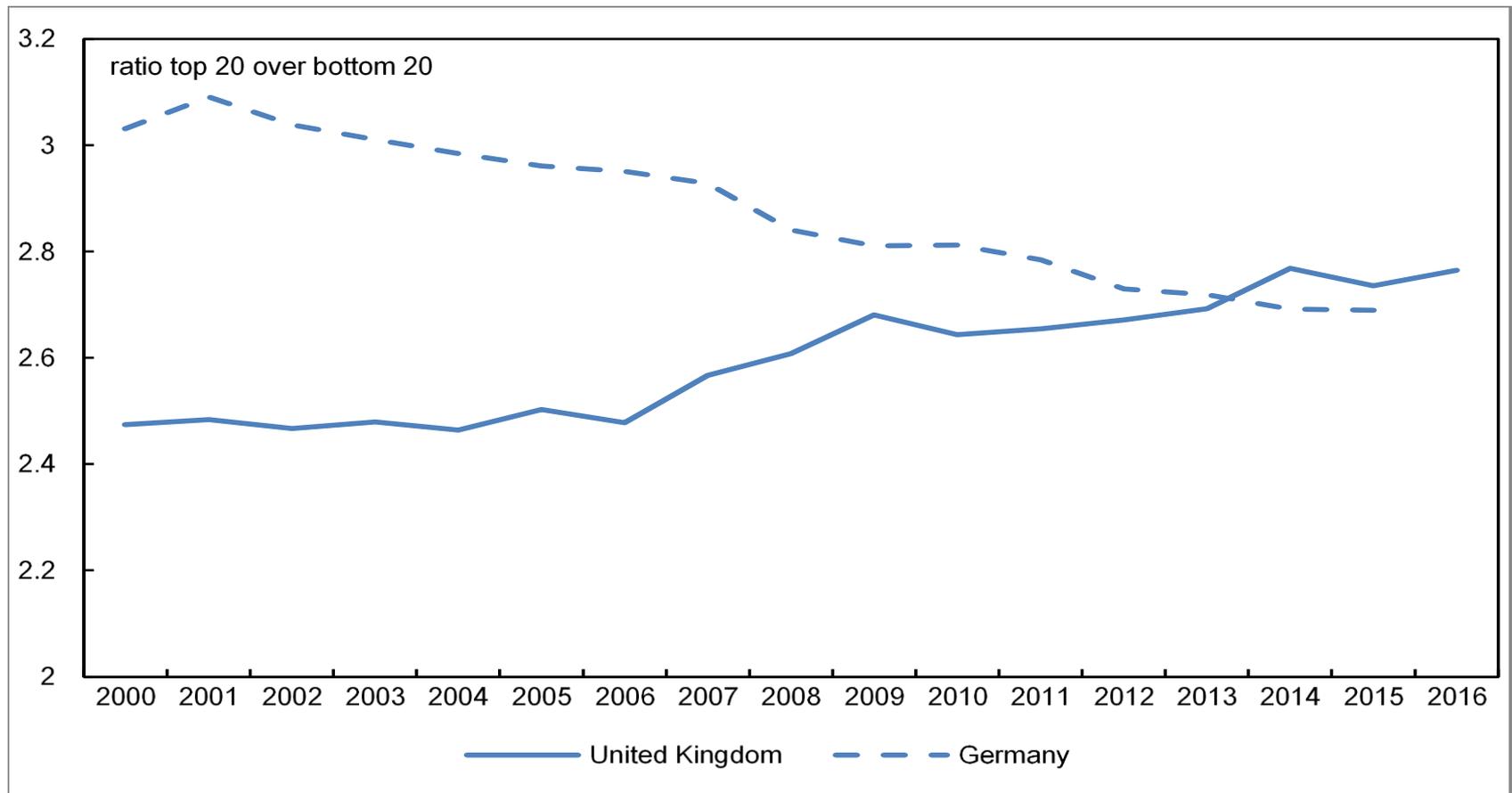
# UK-Germany Comparisons: OECD-TL2 Regional GDP per Capita: Ratio of Top 20% over the Bottom 20% of the Population in UK and Germany 1990-2016 Using the System of National Accounts for 1993 and 2008



# UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 10% over the Bottom 10% of the Population in UK and Germany 2000-2016

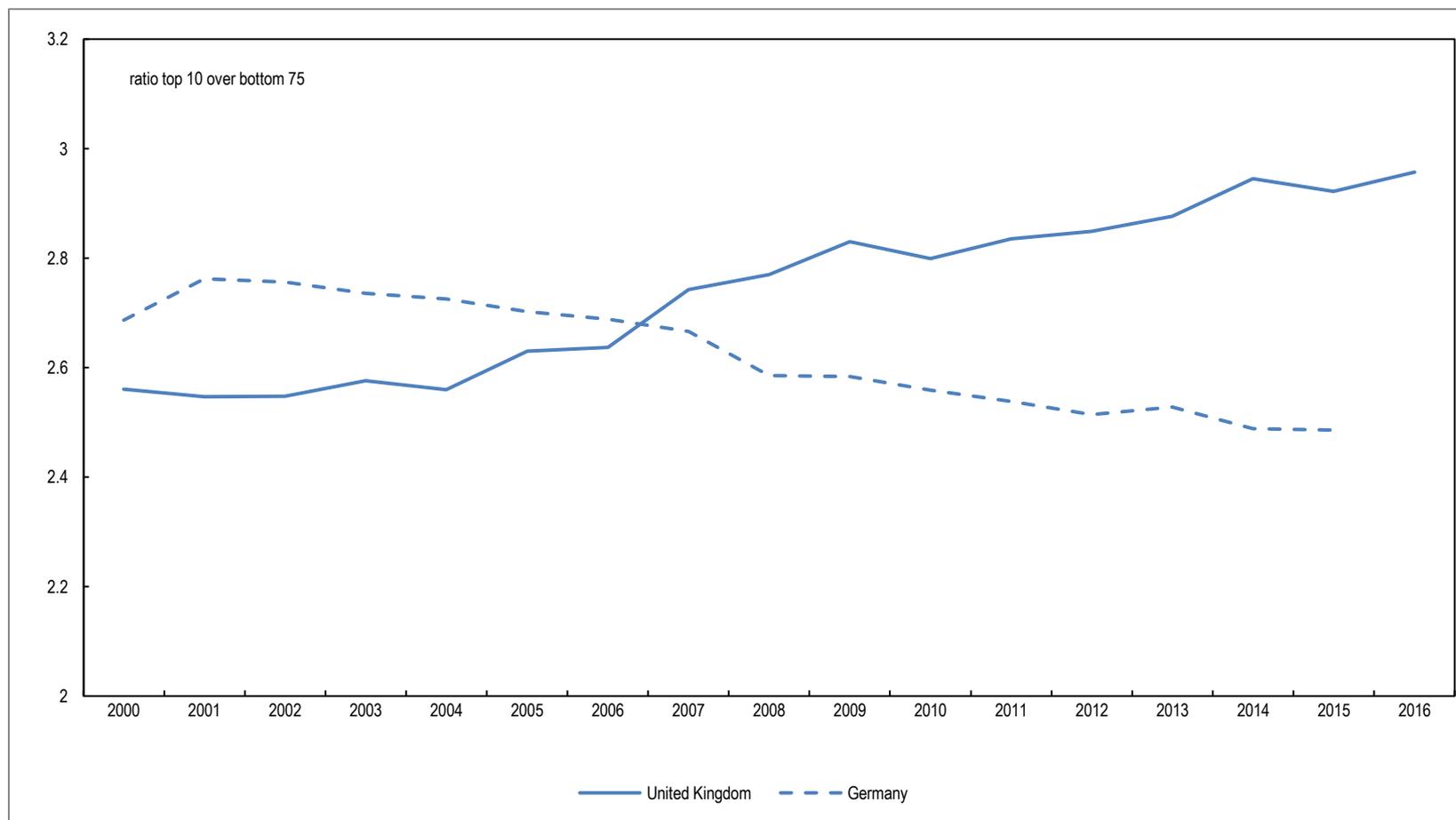


# UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 20% over the Bottom 20% of the Population in UK and Germany 2000-2016



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# UK-Germany Comparisons OECD-TL3 Regional GDP per Capita: Ratio of Top 10% over the Bottom 75% of the Population in UK and Germany 2000-2016



# UK-Germany Comparisons

- UK-Germany comparisons
- Similar national population densities
- Similar urban population densities
- Germany – interregional fiscal transfers €70billion per annum
- Germany annually spends some 5 times as much on regional economic development than the UK
- Germany productivity premium over UK today is more than West Germany over UK in 1990
- Germany was more unequal interregionally but now is much more equal

# OECD-Wide Evidence on Governance

- More decentralised countries tend to grow more equally interregionally
- Decentralisation and good regional/local governance are a critical combination
- Local governance autonomy and fiscal resources provides basis for pro-active and responsive governance
- Incentives local economic development
- Attention to place specific shocks
- Incentives engagement of citizens – civil society, businesses
- How does this relate to the Levelling Up challenge?

- (i) The UK increasingly has more of a cost-based than a revenue-based interregional fiscal equaliser system, and cost-based systems tend to provide much weaker fiscal stabilisation underpinnings than do revenue-based systems.
- (ii) The levels of UK sub-central government revenue, expenditure and investment which are decentralised are very low by international standards, as are the levels of sub-central government autonomy and authority.
- (iii) The UK distribution of sub-central government liabilities is unusual, in that the only other OECD country with a similar composition of liabilities close to that of the UK is Australia, although the sub-central governance systems of the two countries are profoundly different.

- (iv) The shares of UK sub-central government debt which are securitised are amongst the lowest of any OECD country, and are the lowest amongst any large OECD country. As such, the UK is not only unlike federal countries, but also unlike most other unitary countries, especially large unitary countries.
- (v) UK central government exerts direct controls on almost all aspects of UK sub-central government, thereby creating distortions in policy objectives and limiting local policy-making discretion.

(vi) In the UK all sub-central government powers and responsibilities derive from central legislation, leading to a system of very strict rules and regulations. In many other countries, the relevant legislation is local or regional. The UK also differs from most other countries in that its shift to performance budgeting at the sub-central government level, combined with high-powered grant-seeking incentives, tends to skew local decision-making towards meeting the priorities of central government.

(vii) In the UK, one of the most significant obstacles to devolution or decentralisation is the issue of constitutional checks and balances, and this inherently concerns the nature of parliamentary sovereignty and public accountability in the British constitutional worldview (Sandford 2017).

(viii) The legal changes in Scotland following the recommendations of the Calman and Smith Commissions, and in Wales following the Silk Commission mean that the UK is now rapidly becoming a quasi-federal state with highly unequal national governance components, each with very different sub-central governance arrangements, and an unclear definition of the centre of government.

(ix) The over-centralised UK governance system militates against both central government learning and local government institutional capacity-building. The reason for this is that the extreme pyramidal nature of the UK governance system, combined with a lack of any meaningful meso-level governance tiers outside of the three devolved administrations or London, automatically disincentivises citizen engagement with government, especially in the weaker parts of the country. At the same time, this strange governance architecture curiously incentivises both short-termism in policy-making and large-scale interventions.

**The  $\Lambda$ -frame governance problem and the  $\Lambda$ -frame challenge**

# Levelling Up Challenges: Place-Based Thinking

- Failure of institutional design regarding incentives and engagement
- Small country governance and devolution-type solutions
- 3 People-facing + 1 market-facing roles for SCG
- Business rate retention may incentivise economic development but may exacerbate existing inequalities
- Devolution challenge: Scale and coordination matters, both for economic units and also for governance units
- Problems of devolution in England – too small and too fragmented by OECD standards
- Devolution requires fiscal underpinning – interregional stabilisers
- Deal-making devolution cannot be a long-term template – because of horizontal coordination mis-alignment