

Speech

Ashington

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The views expressed here are my own, in my capacity as Chair of the Industrial Strategy Council (ISC). They are not necessarily those of the Bank of England or the Monetary Policy Committee. I would like to thank Shiv Chowla, Al Firrell, Sharon Griffiths, Ben Jones, Stefan Noble and Robert Zymek for their comments and contributions and the Premier League for sponsoring this event.



I am delighted to be at St James' Park and extremely grateful to the Newcastle United Foundation for organising this event and the Premier League for sponsoring it. Over the past decade, the Foundation has done fantastic work helping around 50,000 young people, children and their families in the region. It delivers £7 of social impact for every £1 spent. The work of the Foundation is central to one of the key themes I wish to discuss today – the role of civic institutions in regenerating regions.

I am speaking today in my capacity as Chair of the Government's Industrial Strategy Council (ISC) rather than as Chief Economist at the Bank of England. Many of the economic and social issues I will discuss are, however, relevant to both roles. To work well, town, cities and regions need a blend of economic, financial and social capital. And effective solutions to the most pressing economic and societal problems often require responses from the public, private and third sectors acting in harmony.

The ISC was set up around a year ago. It is an independent advisory body to government, comprising 20 individuals drawn from business, academia, public policy and civil society.¹ It aims to provide an independent evaluation of the success of the government's Industrial Strategy, whose aim is to boost productivity among companies and pay among workers. The ISC serves as the conscience of government in delivering these objectives consistently over time.

The government's industrial strategy is underpinned by five foundations (ideas, infrastructure, business environment, people and places), alongside Sector Deals and Grand Challenges.² It is the "places" foundation of the industrial strategy I wish to discuss today. The spatial or regional dimension to policy has risen in prominence recently. And through initiatives such as Local Industrial Strategies, issues of place have taken centre-stage in the design of the UK's industrial strategy.

The Importance of Place

It is worth asking why spatial economic issues have taken on greater prominence recently, both in the UK and internationally.³ Part of the explanation lies in data. Spatial differences in economic performance are a natural feature of all economies, especially free market ones, in which there is birth and death, winners and losers. But these spatial differences appear to be both larger, and to have widened further, in the UK than in many other advanced economies, stretching the social fabric in some cases to breaking point.⁴

Chart 1 is a map of income per head across the UK. Regions scaled by their economic size, in a so-called cartogram. The gap between the richest and poorest income per head regions is large, at around

¹ Haldane (2019a).

² Department for Business, Energy and Industrial Strategy (2017).

³ For example, the Treasury Committee recently launched an enquiry into regional disparities.

⁴ Collier (2018), IPPR (2018), UK2070 Commission (2019), McCann (2016).

150%. Chart 2 plots the distribution of income across UK regions on three dates (1997, 2007 and 2016). The tails of this distribution have clearly fattened over the past few decades, with the gap between the best and the rest widening.⁵ Indeed, having narrowed between 1900 and 1960, these regional gaps are now back to levels last seen at the start of the 20th century.⁶

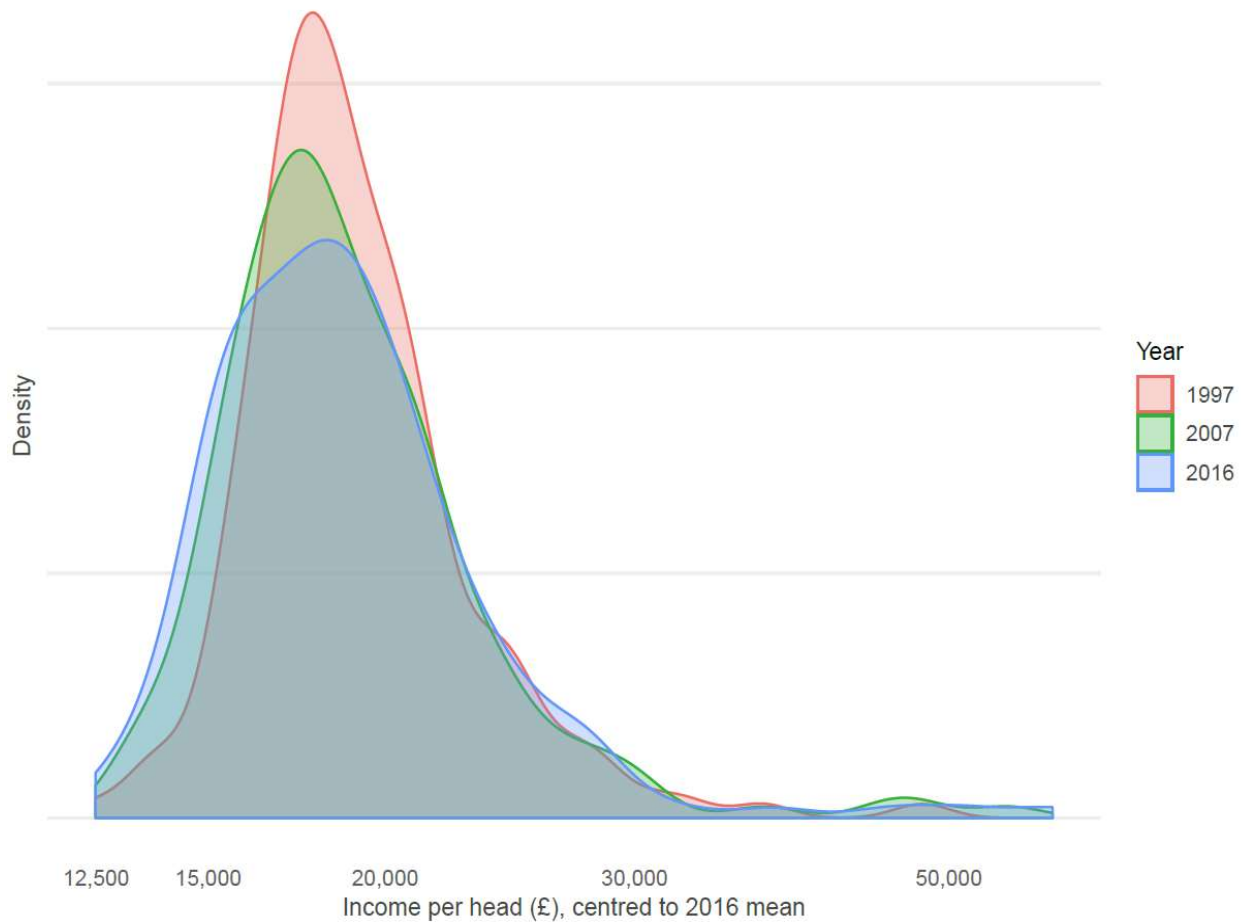
Chart 1: Cartogram of UK income per head



Sources: Eurostat and Bank calculations.
Notes: Purchasing power standard (PPS) per inhabitant for NUTS 1 regions.

⁵ IPPR (2018), UK2070 Commission (2019), Haldane (2019b).
⁶ Geary and Stark (2016),

Chart 2: Distribution of UK income per head over time (mean-aligned)



Sources: ONS and Bank calculations.

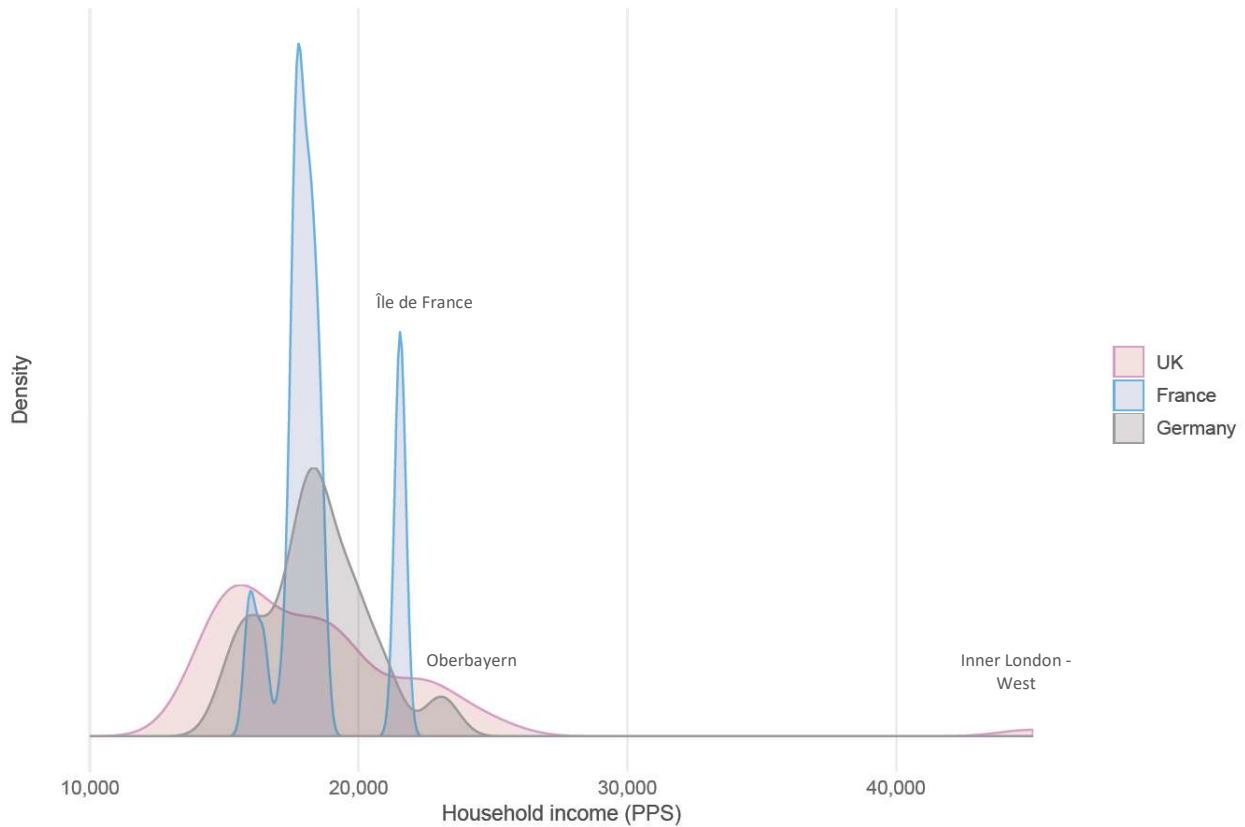
Notes: Chart shows regional gross disposable income for different time periods at current basic prices, centred around the 2016 mean. Observations for each region are weighted by the population of each region.

These widening regional disparities across the UK stand out by international comparison.⁷ Chart 3 plots the distribution of income per head across UK, French and German regions. The gap between richest and poorest regions in the UK is almost twice as large as in France and three-quarters larger than in Germany. These income disparities across the UK are broadly mirrored in wider metrics of well-being, such as wealth, medical health and subjective measures of happiness.⁸

⁷ For example, IPPR (2018).

⁸ Haldane (2019b),

Chart 3: Distribution of UK, France and Germany income per head in 2016



Sources: Eurostat and Bank calculations.

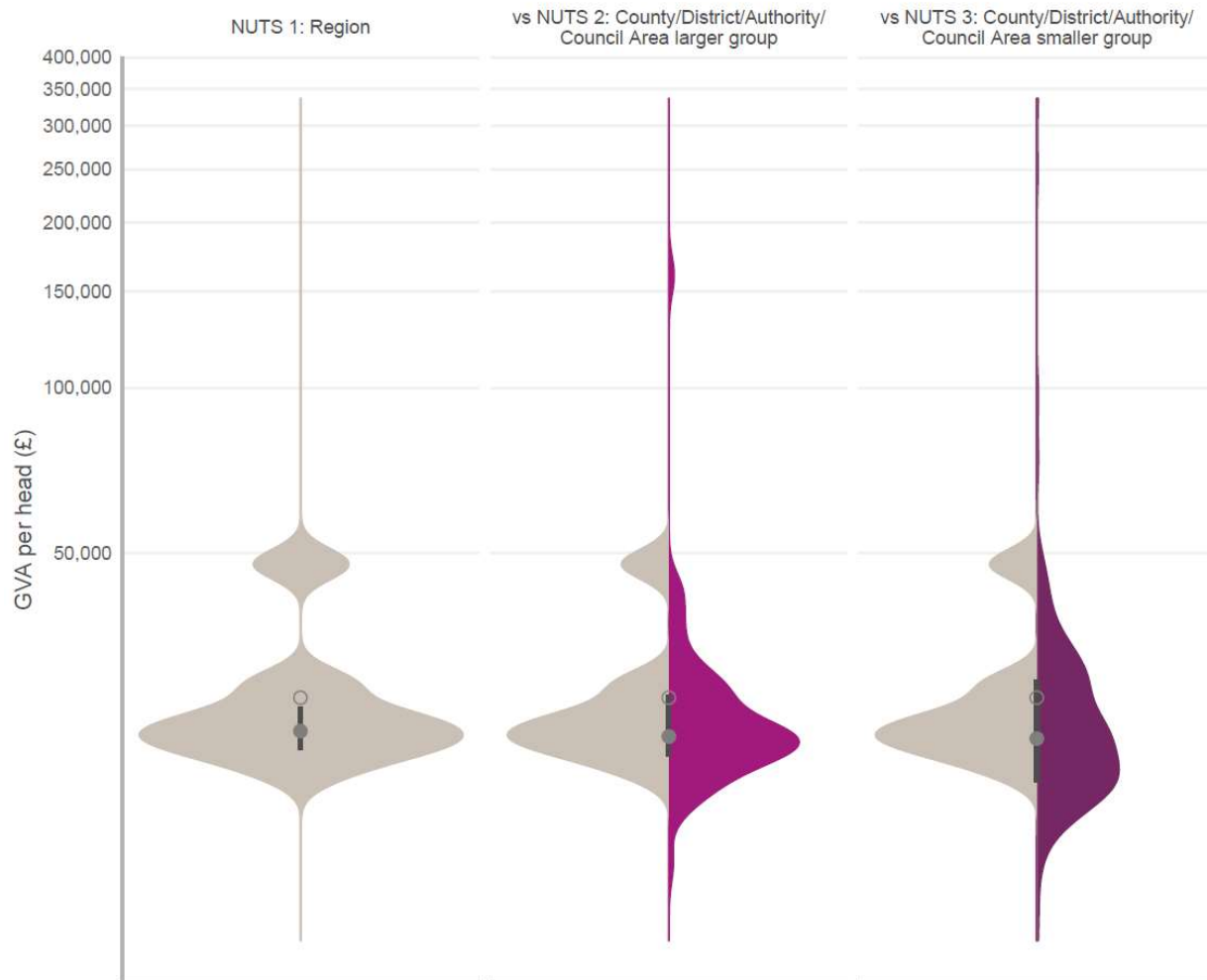
Notes: Purchasing power standard (PPS) per household in NUTS2 regions for 2016 centred around the UK mean. Excludes NUTS region 'FRY' ('Départements d'outre mer').

As interestingly and importantly, these regional differences are often mimicked at the sub-regional level. Spatial income disparities exhibit a “fractal” – or self-replicating – pattern at higher resolutions, just like our coastlines. To illustrate, Chart 4 provides a “violin” plot of income per head distributions at three spatial resolutions. It is clear that the dispersion of outcomes is as large – and often larger – at the local authority as at the regional level.⁹

⁹ Haldane (2019b).

¹⁰ For example, Layard, Nickell and Mayraz (2008).

Chart 4: 'Violin' plot of GVA per head

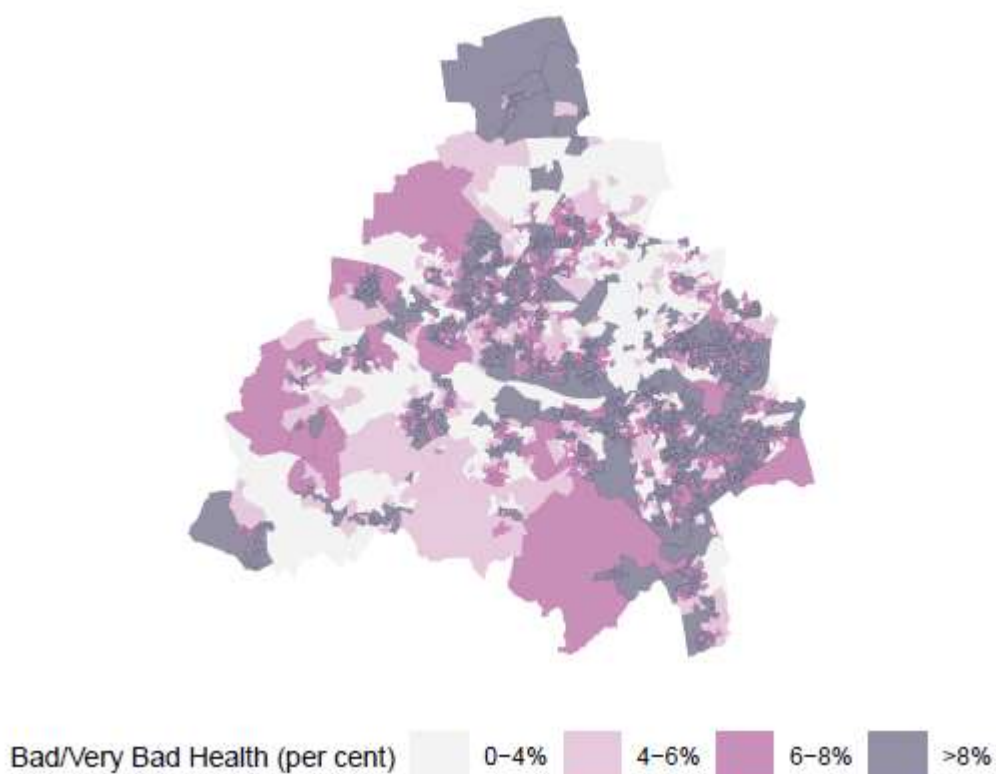


Sources: ONS and Bank calculations.

Notes: Regional gross value-added (GVA, income approach) per head of population at current basic prices for 2017 for NUTS 1, 2 and 3, log-scale. Regional figures weighted by population. Dark bar shows interquartile range, dots show median and circle shows mean.

To illustrate, Chart 5 plots a health map across different local authorities in Newcastle and Gateshead. There is a striking discrepancy in outcomes even between adjoining boroughs. Health outcomes, like economic outcomes, are very localised. If you looked at a health map for London, Belfast, Cardiff, Glasgow or any other large city, you would find a similar patchwork pattern.

Chart 5: Heat maps of health in Newcastle-upon-Tyne and Gateshead



Sources: 2011 Census.

Notes: Data show percentage of respondents declaring themselves to be in bad or very bad health at electoral ward level.

As I put it in a recent speech, in that sense “all economics is local” – and often very local. Spatial disparities in the UK are wide by international comparison, have widened over time and are often tightly localised. Economically and socially, the UK is a patchwork quilt. If nothing else, this tells us why issues of place have risen in prominence for so many people across the UK.

Yet economic data can only take us so far in understanding these regional disparities. *Social data* and *social narratives* are crucial too for capturing the lived experience of the economy for people in their everyday lives. One source of data on these lived experiences is found in surveys of peoples’ subjective well-being or “happiness”.¹⁰ Chart 6 plots a measure of well-being across UK regions.

¹⁰ For example, Layard, Nickell and Mayraz (2008).

Chart 6: Cartogram of UK well-being



Sources: ONS Annual Population Survey (APS) and Bank calculations.

Notes: Responses to the question, "overall, how satisfied are you with your life nowadays?" where 0 is 'not at all satisfied' and 10 is 'completely satisfied' for 2016/17. UK NUTS 1 regions re-sized and coloured by mean response.

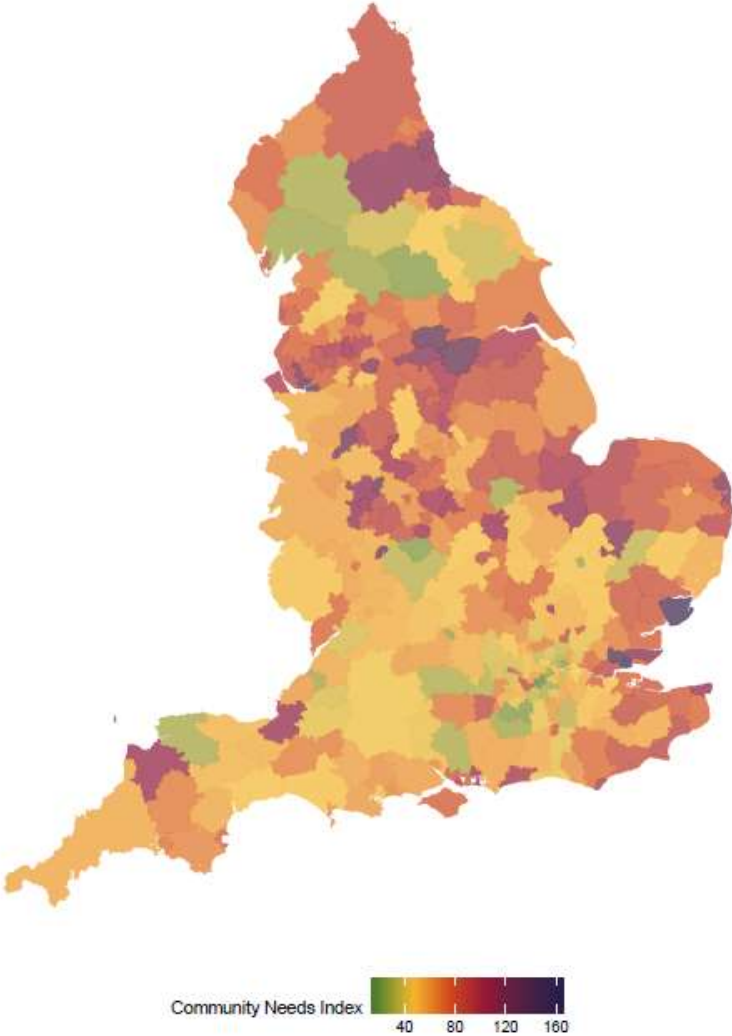
A striking feature is how significantly patterns of well-being differ from the regional income map (Chart 1). Money, clearly, does not buy you happiness. Indeed, the richest region (London) is the grumpiest and one of the poorest regions (Northern Ireland) the happiest. This suggests social factors may often trump economic and financial factors in shaping people's subjective sense of well-being.

Recent research has looked at metrics of the social infrastructure supporting communities, as an alternative metric of regional success or regress. These metrics have drawn on data on areas' degree of

connectivity (digitally and physically), its number of community meeting places (youth clubs, parks, shopping centres etc.) and the extent of its civic activity.¹¹

Based on those metrics, Chart 7 plots a map of so-called “community needs” for England. The darker zones signify greater needs – the region lacks social infrastructure, whether weak connectivity or a lack of community engagement. These are areas of the UK you might say had been “left behind”. This measure of social infrastructure also differs significantly from the regional income map. Interestingly, this map does correlate with areas’ propensity to vote Brexit, much more strongly than income.¹²

Chart 7: Community Needs Score



Sources: Local Trust and OCSI.
Notes: With many thanks to Stefan Noble at the OCSI for sharing data. Methodology discussed in Local Trust and OCSI (2019).

¹¹ Local Trust and OCSI (2019).
¹² Local Trust and OCSI (2019).

Another way of understanding these “left-behind” areas is by tapping into the social narratives that circulate there. To that end, over the past few years I have embarked on a sequence of visits to all parts of the UK to listen to the views of as broad a community of people as possible on the key economic and social issues facing them – companies, community groups, charities, faith groups, trades unions, citizens. Together with Bank colleagues, we have deliberately targeted some of those left-behind places which might otherwise lack a voice.¹³

These visits use methods more familiar from anthropology and sociology than economics and statistics. In the words of anthropologist Clifford Geertz, they involve “deep hanging out”.¹⁴ This fly-on-the-wall approach provides narratives on how the economy is working (or not) for people. Stories have always been the way humans make sense of a complex world and the way knowledge is spread. Stories also shapes people’s sentiment and decision-making, every bit as much as hard cash.

A newish strand of economics has recognised the importance of social narratives in driving behaviour, both at the micro level (when buying a house)¹⁵ and the macro level (when entering recession).¹⁶ This is so-called “narrative economics”. Narratives are simply another source of data, albeit one based on words rather than numbers. In a world of widespread social media, words are becoming an increasingly important source of data, as social narratives spread more rapidly and widely than ever previously.

The Big Six

Based on my conversations and “deep hanging out” across the UK over the past few years, let me group the key narratives on the economy into six categories – the “Big Six”. This is necessarily a simplification, but hopefully gives a sense of the key themes. The Big Six are:

- Transport and connectivity,
- Schools and education,
- Housing and shelter,
- High streets and social spaces,
- Good work and fair pay, and
- Money and finance

¹³ Haldane (2018). This includes Townhalls, Community Forums and Citizens’ Panels.

¹⁴ Geertz (1998).

¹⁵ Bailey et al (2016).

¹⁶ Akerlof and Shiller (2009). I say “newish” because David Ricardo in the 19th century and John Maynard Keynes in the 20th gave “animal spirits” and “social narratives” a central role in human decision-making.

The Big Six span a range of factors, economic, financial and social. The most striking feature of the Big Six is that they almost always are working well – individually and collectively – in thriving towns and cities, but are typically working poorly (if at all) in towns and cities that are struggling. For the first, there is a *virtuous circle* among the Big Six, a spiral of renewal. For the second, there is a *vicious circle*, a spiral of decline. It is these spirals, centrifugal and centripetal, that have generated the wide and widening regional and local disparities between those areas forging-ahead and those being left-behind.

The economics of the virtuous circle are pretty well understood. This is a modern-day “Medici effect”:¹⁷ the convergence of high skills, good jobs, sound infrastructure, quality housing and developed social spaces creates a crucible of creativity. There is mass flourishing innovation, investment, skills, jobs, pay, and culture. These are mutually and self-reinforcing. They sow the seeds, as in 15th century Florence under the Medici, of economic and social renewal or even renaissance.

The effect is cumulative, as centripetal economic forces take hold. One of these forces is relocation or “sorting” in the labour market. The most skilled and ambitious gravitate towards the most rapidly growing and culturally diverse locations. This adds to the productivity, pay and diversity of that area, increasing its attractiveness to future cohorts of young, skilled workers. Economists call this an agglomeration effect, as success breeds success, and talent attracts talent, in a virtuous circle.¹⁸

This is a pattern often seen across the world’s most successful cities.¹⁹ And it is also a pattern repeated in the UK’s most successful cities – London, Belfast, Manchester, Cardiff, Leeds, Bristol, Edinburgh, Oxford, Cambridge, Birmingham, as well as here in Newcastle. Like Tolstoy’s happy families, these cities are usually happy in similar ways. This is not, however, a pattern seen across all large cities, such as Sheffield or Sunderland.²⁰ Size is no guarantee of success.

When it comes to those less-successful towns and cities, like Tolstoy’s unhappy families they can sometimes be unhappy in quite different ways. At root, however, many find themselves in the centre of a vicious cycle in which good jobs, skilled people, sound infrastructure, quality housing and social spaces are being repelled not attracted. Economic forces are centrifugal, not centripetal. There is no crucible of creativity, no Medici melting pot, no imminent Renaissance, no agglomeration effects.

There are plenty of towns and cities bearing at least some of these characteristics – in Boston, Bradford, Bolton, Stoke, Blackpool, Port Talbot, Redcar and Scunthorpe, to name but a few I have recently visited. Each has a rich and proud history, often dating from their heyday during the Industrial Revolution. But the

¹⁷ Johansson (2004).

¹⁸ For example, Fujita, Krugman, Venables (1999).

¹⁹ For example, Florida (2018).

²⁰ Martin et al (2019).

years since have not been as kind. Too much of the economic and social fabric in these places has, over time, unravelled and failed to be repaired.

I want to illustrate the importance of the “Big Six” using, as a case study, a town just over 15 miles away from where we sit: Ashington. This is not a special case. There are many Ashingtons across the UK. But having visited relatively recently, Ashington does I think illustrate clearly some of the Big Six issues facing many of the UK’s left-behind towns and cities.

Ashington

Ashington is a former pit village which, in its heyday, was reputedly the world’s largest. There must be something in the water because it is the birthplace of footballing greats Jackie Milburn (a statue of him has pride of place on the high street) and the Charlton brothers, Bobby and Jackie, as well as England fast-bowlers Steve Harmison and Mark Wood. It is also the birthplace of Sir John Hall, ex-Chairman here at Newcastle United.

Remarkably for a town of only around 30,000 people, it has its own dialect – Pitmatic. That, and its rich history, contributes to the town’s strong community spirit. I felt the warmth of my Ashington welcome. That is just as well because, economically, Ashington has not been a hotspot for at least a generation. Its problems are not difficult to diagnose: none of the “Big Six” are working as well as they should.

(a) Transport and Connectivity

First, transport. When I visited Ashington, I arrived from Morpeth by taxi fairly late at night. This was the only way to get to the town. It was too late for the buses. And I had narrowly missed the last passenger train from Newcastle by around 55 years, courtesy of Dr Beeching. He has been neither forgotten nor forgiven. There remains a working rail line into Ashington, but it takes freight only. There’s a metaphor for you.

Seventy years ago, a teenage John Hall worked in Ashington’s pits during the week and would travel by train at the weekend to St James’ Park to see Newcastle play. Today’s trip would be far more arduous. In public transport terms, Ashington may well be less well-served today than it was seventy years ago. The same is probably true of a great many other towns, large and small, right across the UK.

Between 1950 and 1980, Beeching and prior policies resulted in the closure of a remarkable 3,700 railway stations and 8,000 miles of track.²¹ The costs of these closures for the towns concerned have been only too clear. One of the most important has been a loss of population, especially among younger, skilled workers.²² The 1 in 5 places most exposed to rail cuts have seen 24 percentage points less growth in population than the 1 in 5 least exposed. Disconnection from the mains has, for these towns, meant large-scale loss of people and skills.

Even between UK cities transport links can be patchy. Travelling North-South is usually speedy. Travelling East-West is not, North of the Watford Gap. The distance from one great coastal port, Liverpool, to another, Hull is around 130 miles, the same as the distance from London to Birmingham. But the travel time by train from Liverpool to Hull is 2 hours 50 minutes, if all goes according to plan. If HS2 ever happens, the travel time from London to Birmingham will be 49 minutes.

Transport matters greatly for agglomeration effects; it is the physical means by which people, ideas, businesses and cultures converge, the not-so-secret sauce of Medici magic. Poor transport explains why even some of the UK's successful cities – Birmingham, Liverpool, Leeds, Cardiff, Glasgow, Belfast – punch below their international economic weight. It also explains why some of the best-connected UK towns and cities are the fastest-growing – for example, in the Oxford-Cambridge-Milton Keynes corridor.²³

Most people grow roots when young and many seek to maintain them. Around 40% of 31-54 year olds in the UK live within 15 minutes of their parents, and around two-thirds live within one hour.²⁴ Interestingly, geographic mobility in the UK appears, if anything, to be falling over time.²⁵ For some, this reflects the desire to grow roots. For many, it reflects the cost and difficulty of commuting.

Disconnection from the mains is, these days, no longer just physical; it is digital too. While 94% of households and businesses have access to superfast broadband, large parts of the UK do not. Around 2% of UK premises cannot access a download speed of at least 10 Mbit/s. 9% of the UK landmass has no good 4G coverage from any operator. And 23% of homes and businesses lack good indoor 4G coverage from all operators.²⁶

This disconnection (physical and digital) has costs, economic and social. Geographic mobility is a vehicle for social mobility. Perhaps it should come as no surprise that, as geographic mobility has fallen, social

²¹ Adonis (2019).

²² Gibbons, Heblich and Pinchbeck (2018).

²³ Forth (2019), Haldane (2019b).

²⁴ Chan and Ermisch (2014).

²⁵ For example, Clarke (2017).

²⁶ Ofcom (2018).

mobility in the UK has stagnated too over recent years.²⁷ Longer-term, lower social mobility will tend to limit peoples' opportunity set, shrinking both the size of the economic pie and the inequality in its slices.

As connectivity and mobility has fallen, perhaps it should also come as no surprise that a new social epidemic has spread, invisibly, across many Western societies. This is an epidemic in loneliness.²⁸ Longer-term, this too has significant societal costs, not least poor physical and mental health and weaker well-being. It is no coincidence that the happier regions in Chart 6 are those who report in surveys they have friends and family they can rely on.

Connectivity matters. Re-opening the line from Ashington to Newcastle has been much discussed since Dr Beeching's Act. More than half a century on, however warm and willing the community spirit, the infrastructural flesh in Ashington, and elsewhere, is weak. On current plans, the Northern Powerhouse would need to grow very long fingernails to scratch Ashington.

(b) Schools and Education

Second, schools. My taxi driver to Ashington was a former music teacher. He had left teaching several years back, disaffected by his experience. He was now driving taxis full-time, despite having many years of education and training under his belt. I instinctively felt he was letting himself and the school down and suggested he should return to being a teacher.

He said that was not going to happen. The final straw had been when children from the school had shot out his windows while his wife was feeding their child. This is an extreme example, but not an entirely atypical one. I spoke at a school in Stockton where teacher turnover was 50%. It was recently reported that exclusion rates at a school in Sunderland had exceeded 50% last year. Just imagine running an organisation with those levels of turnover?

Of course, there are plenty of well-performing and improving schools across the UK. The school in Ashington, which my taxi driver had left some years earlier, is now one. These schools provide the seed-corn for our universities, which are one of the jewels in the UK's crown. A number top international league tables. Like our successful cities, they too benefit from an international talent pool, a hub not just for learning but for innovation and entrepreneurship as business and science parks adjoin campuses.

In this way, the UK's university network is now playing to its historic strengths in innovation and entrepreneurship, dating right back to the Industrial Revolution. Universities are one of the key reasons

²⁷ Social Mobility Commission (2019).

²⁸ Department for Culture, Media and Sport (2018) discusses the Government's strategy for tackling loneliness.

why the UK accounts for a disproportionate number of the world's most creative and highest-productivity companies; why London is the most richly-skilled, productive and highest-paid city in Europe; and why many university cities, like this one, have been transformed for the better over recent years.

Yet this is only half the story. The UK is also home to a long, lower tail of left-behind cities and towns with a long, lower tail of low-productivity companies employing a long, lower tail of poorly-skilled and poorly-paid workers. This lower tail of places, businesses and workers exists everywhere and always has. But it seems to be longer than in most of the UK's international competitors and to have lengthened recently. The UK has both a larger head and a longer tail.

Those gaps in performance between the best and the rest are, to some extent, the result of the UK's bifurcated education and training system. Around 50% of young people now go to university, up from around 3% seventy years ago.²⁹ On average, they earn a graduate pay premium of around 40% for having developed advanced cognitive skills.³⁰ That is a remarkable increase in the size of the UK's head.

For the 50% who do not attend university, however, the UK's educational system offers slimmer pickings. A significant number leave full-time education without having mastered even the basics needed for the world of work. Around 15% are functionally illiterate and 50% functionally innumerate.³¹ The UK is the only OECD country where these numbers seem to be getting worse over time. As that lower tail has lengthened, it has left perhaps half the UK's young people stuck on the educational low road.

Beyond school, the educational and training infrastructure for those not attending university also stands unfavourable comparison with many other countries and has weakened over time. Spending on Further Education (FE) has fallen 17% over the past 8 years, at the same time as spending on Higher Education (HE) has risen around 15%.³² FE is the collapsed left lung of the UK's educational system.³³

I recently visited Germany to learn about their vocational training system. Far fewer people in the UK are engaged in apprentice programmes and for far less time. For many professions, there are few if any structured training programmes or restrictions on entry. In the UK, I can set up as a builder today, a plumber tomorrow and a painter the day after. This would be unthinkable in Germany.

In Germany, there is no skills high road and low road. Instead, there is a dual carriageway – one lane academic, the other vocational – on which people earn a similar salary with equal status. The UK's

²⁹ Bolton (2012).

³⁰ Department for Education.

³¹ Skills for Life Survey – proportion of respondents aged 16-65 with skills at or below Entry Level 3.

³² See Britton, Farquharson and Sibieta (2019). IFS figures referring to spending per student per year in 2019-20 prices, comparing 2019-20 with 2011-12.

³³ Augur (2019).

bifurcated education and skills system, with a cognitive fast lane and a vocational slow lane, sows the seeds of the bifurcated performance of its regions, businesses and citizens. In Ashington, as in many towns, too many people are stuck in the educational slow lane.

(c) Shopping and Social Spaces

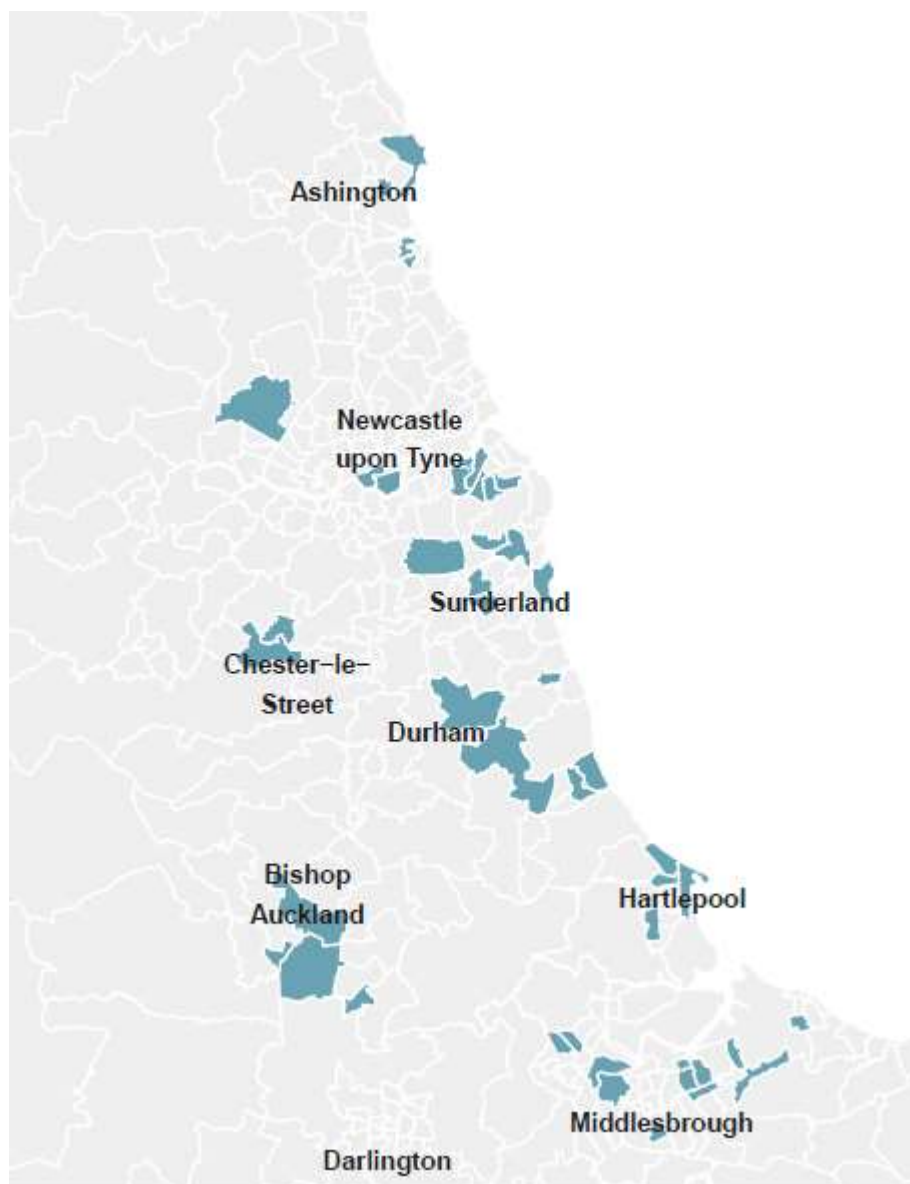
Next, shopping and social spaces. When economists write down their models, shops tends not to feature. Nor do parks, playgrounds, sports centres, youth clubs, football clubs, theatres and community centres. Yet it is well-known these pieces of social and civic infrastructure matter greatly to people's lives and their well-being. They are one reason why Northern Ireland tops the happiness league table.

Shops and social spaces are not, or not only, places for splashing the cash. They are community meeting points, social infrastructure, civic mechanisms for creating what Robert Putnam calls "social capital".³⁴ When these social spaces are lost, social capital depreciates. That matters to the citizens of a region every bit as much as a loss of financial or economic capital; it is another reason to feel left-behind.

The index of community needs, referred to earlier, captures aspects of this social infrastructure. A map of community needs in the North-East is shown in Chart 8. There are a number of notable pockets of "left-behindness", many of them former mining or manufacturing strongholds: Easington, Peterlee, Blyth, Stockton, Sunderland, Hartlepool and Redcar, as well as Ashington.

³⁴ Putnam (2000).

Chart 8: 'Left behind' towns in the North-East



Sources: Local Trust and OCSI.

Notes: With many thanks to Stefan Noble at the OCSI for sharing data. Methodology discussed in Local Trust and OCSI (2019).

And the North-East is hardly alone: in the seaside towns along the West, East and Southern coasts of England, who have never quite escaped the tourism trap; in parts of Yorkshire, the Humber and Lancashire, where heavy industries once ushered in the Industrial Revolution; and in the East and West Midlands, the Welsh Valleys, and parts of Northern Ireland and Scotland. All of them find their social infrastructure depleted, their social capital depreciated.

When I visited Bolton recently, I asked about the near-death of Bolton Wanderers FC and the actual loss of their neighbours Bury FC. Between them, these two clubs have 280 years of community history. The death, or near-death, of this key piece of social infrastructure is a tragedy for the region. That is something everyone here at Newcastle United – with its 126 years of history – would recognise.

The UK has recently begun to recognise the importance of its high streets, if not always other pieces of its social infrastructure. Mary Portas is leading a national make-over. Ashington itself has been subject to a make-over. But as I walked the High Street, it is clear the cosmetic surgery remains work in progress. Too much of Ashington High Street, as elsewhere, remains a shrine to bookies, charity shops and high-cost credit providers.

I was born in one of those left-behind North-East towns, but was brought up in Yorkshire. It seemed like a miracle when Harvey Nichols journeyed up the M1 to Leeds over 20 years ago. Contrary to expectations, including mine, Harvey has thrived. Yet I suspect Harvey might pause before seeking rental space on Ashington High Street. The M1 stops at Leeds and the A1 is mostly single-file from Newcastle.

(d) Jobs and Pay

Next, good jobs and decent pay. This is an easy one. There aren't enough of the first in Ashington and too few of those offer the second. That has been true since the last pit closed in 1988. And it has certainly been true since the next largest employer, an aluminium smelter, closed in 2012. Youth unemployment in the region stands at around 1 in 7, materially higher than the national average.

This is a familiar story among post-industrial towns throughout the Western World. Iconic industries, with deeply-dug local roots, are not easily replaced when uprooted by events. Lost tradesmen are not easily re-found. Amy Goldstein's book, *Janesville*, tells this tale in rust-belt America.³⁵ This is not only a story of the cost of jobs lost and lives blighted, but the difficulties of retraining and restoring those displaced.

At the same time, Ashington contains a tantalising glimpse of the future. The Fourth Industrial Revolution is, in a sense, alive and well. The town is home to the most advanced and productive paint manufacturing plant, not just in the UK but, reputedly, the world. Better still, this factory employs former miners and smelters in secure, well-paid work. Janesville it is not. That's the good news.

³⁵ Goldstein (2017).

The bad news is that this is the world's most advanced paint manufacturer for a reason. It employs around 150 people, or around 1% of Ashington's workforce. It is very far from being a like-for-like replacements for the pits and the smelters which, between them, accounted for perhaps 80% of employment in Ashington. The question is who or what fills the jobs gap with well-paid, secure work? Indeed, that is the question facing a great many other regions and countries.

At one level, you could argue this question has already been answered. The employment rate in the UK, and in each of its regions, is at a 50-year high. Unemployment rates, nationally and regionally, are at 50-year lows. Worklessness, the scourge of the 1970s and 1980s, has been largely if not entirely purged. Unemployment in Ashington is at its lowest levels since its mining heyday.

Yet in its place, a second scourge has emerged – the scourge of *income* insecurity.³⁶ Filling the jobs gap has often been achieved through less secure and less well-paid work. The TUC estimate around 3.7 million people are in insecure work in the UK.³⁷ Many UK workers have also faced a “lost decade” of pay, the longest period of stasis since the first Ashington mineshafts were dug. When I visit left-behind towns, and some of those forging-ahead, it is income insecurity keeping people awake at night.

This is the plight of many post-industrial towns and cities today. As for tomorrow, the robots are coming. In aggregate, it is possible (though by no means inevitable) they will create as many new jobs as they eat old ones. But the robots' regional impact may not be so benign. Routine jobs are easiest to automate and are grouped geographically in some of the UK's coldest economic spots.³⁸ This means the next technological wave, while lifting those on the high road, may flood those on the low road.

(e) Money and Finance

Next, money and finance. For many households, the issue is not so much lack of access. In some of the UK's most disadvantaged towns, finance houses are falling over themselves to lend money. Talking to parents at the local school in Ashington, they told me they regularly receive 3 or 4 leaflets each day from high-credit providers, surpassing even the special offers on burgers, pizzas and kebabs.

Accessible finance is one thing; affordable finance quite another. Oven-ready loans come at a cost. Annually compounded, this can run to hundreds or thousands of per cent. Even the small print cannot hide that many zeros. When I told parents at the school in Ashington that UK interest rates were at their

³⁶ Haldane (2019c).

³⁷ TUC (2019).

³⁸ Roberts, Lawrence and King (2017).

lowest levels in human history, they laughed. Their lived experience was hundreds of miles (and per cent) from my working experience.

A local credit union operates in Ashington whose aim is to become the bank for the local community. But their deposit base is small and access to finance, at reasonable rates, is limited. Banks have not yet retreated from the High Street. But few these days house lending officers to serve local business. Those lending officers are a lost tribe. Like that *Little Britain* sketch, these days it is often a computer saying no.

These gaps in finance are not new. A Parliamentary Committee in 1931 labelled these financing fault-lines the “Macmillan Gaps”. Loss of the lending officer tribe means those Macmillan gaps are probably wider now than then. Meantime, over 1 million people across the UK remain unbanked. With income insecure and 1 in 4 having no savings cushion, this leaves many just one hiccup away from a financial heart-attack, forced to pick up one of those high-cost credit leaflets landing on their doorstep.

London heads the global financial league table, a “fintech” hub, a Medici melting pot. Other big cities, from Edinburgh to Birmingham to Leeds, are significant financial centres too. Yet the UK also has one of the lowest levels of financial literacy in the OECD. In Oxford, Bolton, Burnley, Glasgow, Derry and elsewhere I have seen the deep personal costs of bad decisions around debt. It seems strange that the UK can simultaneously be both top and bottom of the financial literacy class.

(f) Housing and Shelter

Finally, housing and shelter. As with finance, the issues here are availability and affordability. The dilemma is that houses which are available are often unaffordable and those that are affordable are sometimes not habitable. The UK’s housing market lacks fertile or deep enough soil for most people to put down roots and for others to find a roof at all.

In some areas, the issue is housing *quantity*. Last year, around 200,000 houses were built across the UK – the highest number since just before the financial crisis. But that is still 100,000 short of the government’s target. In recent years, the UK has consistently built 100,000 fewer houses each year than are needed to satisfy household formation.

If you underinvest for that long on that scale, with demand outstripping supply, you do not need an economist to tell you what happens next: the price of houses rises rapidly relative to people’s ability to pay for them. Since 1970, the ratio of house prices to average annual household income in the UK has more than doubled to 9.5. This has left many people priced-out and many more squeezed-in.

Those housing shortfalls are often most acute in the UK's most successful cities which are a magnet for talent. As new arrivals occupy and gentrify, existing residents are squeezed or priced out. It is no coincidence that the homelessness and food bank capitals of the UK include cities such as London, Bristol, Oxford and Manchester, each of them thriving regional hubs. When I speak to homelessness charities in these cities, it is clear that business is booming.

When I visited Salford outside Manchester last year I sat in the local community centre. Out of one window was the gleaming metropolis that is Media City, penthouse flats in steel and glass. Out of the other window stood council housing blocks unimproved in a generation, high-rise flats in pebbledash. These were two sides of the same street.

Elsewhere, the housing issue is not so much quantity as *quality*. In Blackpool, many former guest houses have been converted into private rental accommodation. I recently visited a converted guest house in Blackpool as it was being inspected by the council. It was an uninhabitable drug den. Yet the landlord was reaping a 15% rental yield, courtesy of mass occupation and housing benefit. These are not the foundations on which a private rental market should be built.

A recent report suggests that the scale of housing problems in the UK is severe.³⁹ 3.6 million people are estimated to live in an overcrowded home and 1.4 million in poor quality homes. Financial strains are also acute with 2.5 million unable to afford their rent or mortgage. 400,000 are estimated either to be homeless or at risk of homelessness.

A City sage once proffered the advice "houses are for nesting, not investing". He was right, but for the wrong reasons. Housing is security and identity, roots and refuge. Shortages in the quantity and shortfalls in the quality of UK housing mean, too often and for too many people, it is none of these things. This leaves too many people roofless and many more rootless.

Looking Ahead

Red-blooded capitalism requires failure and success, death and birth. Economists have a name for this Darwinian survival of the economic fittest – "creative destruction", after the Austrian economist Joseph Schumpeter.⁴⁰ Death of the old creates a mass flourishing of the new. Green shoots replace dead wood. A burning of the brush fertilises the soil and regenerates the landscape, to take an ecological analogy.

³⁹ National Housing Federation based on Understanding Society survey.

⁴⁰ Schumpeter (1942).

Ecologists recognise, however, that not all system destruction is creative, not all wholesale change regenerative. A mass clearance of the rainforest is not a prompt for regrowth and renewal, a mass flourishing of a new eco-system. Instead it leaves a barren tundra whose soils and nutrients are leeched. The new eco-system is unrecognisable, less diverse and less fertile.

The same is true in economic systems. In towns such as Ashington, industrial-scale clearance of the dominant crop has led to permanent damage to the supporting eco-system – infrastructure, skills, jobs, social spaces. What is left is barren economic tundra, permanently leeched of nutrients. That means a less fertile economy in which many have less to spend, nothing to save and too little to do.

If solving these problems were just about financial holes then they could be filled, if not cheaply. As or more important are the gaps in opportunities, aspirations and ambitions. This is where eco-systems and economic systems part company. The capacity to imagine a better future, and to set about creating it, is what distinguishes humans from other species.⁴¹ Aspiration and imagination is what put humans on the evolutionary jet-stream.

When human aspiration is dimmed and imagination blunted, the most important factor driving regeneration is lost too. Without optimism about tomorrow, people stop investing today. When that happens, low aspirations become self-fulfilling, a vicious cycle, a barren tundra, too many falling behind. We see economic, financial and social capital denuded.⁴² This is the story of the UK's struggling cities and towns; it is the reason "place" matters.

What is needed to reverse this cycle? Creative destruction is not an answer. Nor is time. History, recent and distant, demonstrates that. So too does economic theory, when there are problems of market functioning and co-ordination.⁴³ Although capitalism requires triumph and disaster, it does not require us to treat those twin imposters just the same. Reversing the vicious cycle requires a plan for (at least) the Big Six. Let me end with a few reflections on such a plan.

First, *industrial strategy*. With its focus on skills and education, good work at a good wage, sound infrastructure and sparky innovation, the government's industrial strategy speaks to many of the Big Six. Through the Local Industrial Strategies currently being drawn up by Local Enterprise Partnerships (LEPs), it speaks to them locally as well as nationally. Recently-published local industrial strategies for Manchester and the West Midlands are notable for their quality and ambition.

⁴¹ For example, Harari (2015).

⁴² Graham (2017).

⁴³ Duranton and Venables (2018).

This is a good start, but only a start, in addressing regional disparities across the UK. The ISC has “places” as one of the key themes of its work. Later this year, we will publish research which I hope progresses the debate about “what works” (and, as importantly, what doesn’t) when it comes to local industrial strategies, the causes and consequences of those centripetal and centrifugal economic forces. This is based on evidence drawn not just from UK experience but internationally too.

Second, *infrastructure and connectivity*. The Chancellor has recently spoken of an “infrastructure revolution” across the UK, part physical, part digital. There is a pipeline of infrastructure projects, recommended by National Infrastructure Commission, which might form part of such a revolution.⁴⁴ And positive noises are being made about HS3 (which could cut that journey time from Liverpool to Hull by perhaps almost half) and nation-wide full-fibre broadband. These are big-ticket projects.

It is important also not to lose sight of possible smaller-ticket projects, which might help reconnect those smaller, left-behind towns and cities with the mains. Andrew Adonis has recently spoken of the benefits of a “reverse Beeching” project, reopening or creating a couple of hundred stations and creating or re-opening a couple of hundred miles of track. Although relatively modest in scale, this project would reconnect around 2 million people across the UK in left-behind towns.⁴⁵

Notable among these reconnections, here in the North-East, would be the reopening of the Leamside line connecting Gateshead, Newcastle and Durham and reconnecting several satellite towns such as Washington and Houghton-le-Spring. Alongside that, Adonis suggests re-opening to passengers the freight line north from Newcastle to Blyth and, yes, Ashington.

Third, *education and skills*. While there are no easy wins, some directions of travel are clear. We need ways of raising the speed limit for the 50% of young people stuck in the slow lane. Raising basic levels of numeracy and literacy is one element; raising the importance of sound financial literacy and interpersonal skills is a second; establishing a well-functioning and durable vocational training system is a third; and embedding and financing genuinely lifelong learning is a fourth.

Next month, the ISC will publish a report into skills gaps across the UK looking ahead to 2030. These gaps are largest in management and leadership skills, digital skills, STEM and teaching and training skills. I hope the ISC’s work can inform progress in developing the UK’s educational and training system in the years ahead, to better meet the needs of the Fourth Industrial Revolution.

⁴⁴ National Infrastructure Commission (2018).

⁴⁵ Adonis (2019).

Fourth, and close to the heart of the Newcastle United Foundation, *social and civic infrastructure*. As Raghu Rajan has recently discussed, many of the problems in our economies and societies can be traced to a failure to invest sufficiently in our communities.⁴⁶ There has been gradual subsidence in what he calls the Third Pillar. Rajan is right. We need more than slogans to rebuild our social and civic infrastructure in left-behind towns and cities. We need a strategy.

There are many possible elements of such a strategy.⁴⁷ A more systematic way of measuring the societal contribution made by civil and civic society would be one element. A new model of civic engagement, which better recognises and rewards individuals' voluntary contributions, would be a second. A technology platform better able to match the needs of communities and charities and the skills and energy of volunteers would be a third.

In many ways, this strategy could be seen as building on the Newcastle United Foundation model: interventions targeted where the social infrastructure is most depleted, using the combined forces of government, business and civil society, harnessing and harvesting the social capital embodied in the UK's army of volunteers, and then measuring – and, yes, celebrating – the societal impact this is having.

Fifth and finally, *governance*. In its governance, the UK is notably more centralised than most other Western economies. Taken alongside the very localised nature of many regions' problems, this suggests the need to think imaginatively about whether regional powers and responsibilities are adequately aligned with the scale of the problems they face. It seems reasonable to think localised problems may require localised solutions that might be best orchestrated and overseen by local authorities.

The history of devolution and regional governance in the UK (and elsewhere) is a mixed one. It has been hallmarked by chops and changes, neither of which is ideal for solving deep-seated, long-lasting problems. But the recent progress of the Mayoral combined authorities across England might offer a glimpse of the future. A number of recent reports have made proposals for ambitious new regional governance structures, building on existing and older initiatives.⁴⁸ They deserve serious consideration.

Wherever the solutions lie and whatever form they take, success will rely on harnessing the combined strength of governments, businesses and civil society acting in partnership. That is a partnership model the Newcastle United Foundation, in this community, has shown can have a huge economic and social impact. I wish you continued success and hope that success can be extended nationwide. Thank you.

⁴⁶ Rajan (2018).

⁴⁷ I discussed some of these recently in speech to mark the 10th anniversary of the charity I co-founded, Pro Bono Economics (Haldane (2019d)).

⁴⁸ UK2070 Commission (2019), IPPR (2018).

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