A-level ECONOMICS

Paper 3 Economic Principles and Issues

Insert

DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

Regional inequality in the UK

Questions 31 to 33

- **Extract A:** The regional problem
- **Extract B:** Selected economic indicators for the North East (NE) and South East (SE) regions of the United Kingdom (UK)
- **Extract C:** The 'levelling up' agenda
- **Extract D:** Is regional policy destined to fail?

IB/G/Jun24/G4001/E7

There are no sources printed on this page

Extract A: The regional problem

Many countries have regions that are significantly less prosperous than others. Economic development is always uneven; some areas of a country develop fast whilst others grow more slowly.

In more-economically developed countries, regional inequality often results from the decline in regions which were once prosperous. In the UK, the decline in traditional industries such as coal mining, shipbuilding, steel and other manufacturing enterprises meant that regions that depended on these industries fell behind other parts of the country.

Some studies show that the UK is one of the most geographically unequal countries in the developed world. There are substantial regional differences in income, wealth, productivity, health and education. However, inequality does not only exist between regions but also within regions. Even the poorest regions have areas of prosperity and the more-prosperous regions, such as London, have pockets of poverty.

Source: News reports, February 2023

Turn over for the next Extract

Extract B: Selected economic indicators for the North East (NE) and South East (SE) regions of the United Kingdom (UK)

Figure 1: Population and internal migration, 2020

	Population (millions)	Internal migration		
		Inflows	Outflows	Net
North East	2.7	51 586	46 958	4 628
South East	9.2	257 712	240 029	17 683
United Kingdom	67.1			

Source: ONS, accessed February 2023

Figure 2: Employment and unemployment, seasonally adjusted, July to September 2022

	Employment rate (%) aged 16 to 64	Unemployment rate (%) aged 16 years and over	Economic inactivity rate (%) aged 16 to 64 years
North East	71.7	4.2	25.2
South East	78.2	3.0	19.4
United Kingdom	75.5	3.6	21.6

Source: ONS – Labour Force Survey, accessed February 2023

Note: The economic inactivity rate is the proportion of the population, aged between 16 and 64, that is not in the labour force.

Figure 3: Income and productivity

	Gross domestic product (GDP) per head (£), in 2020	Gross disposable household income (GDHI) per head (£), in 2020	Median weekly earnings (£), full-time employees, in 2022	Labour productivity, index of output per hour, in 2020 (UK=100)
North East	23 109	17 416	580	88.9
South East	34 516	24 551	685	110.8
United Kingdom	31 972	21 440	640	100.0

Source: ONS, accessed February 2023

Figure 4: Fiscal indicators, 2020/21

	Public sector revenue per head (£)	**Public sector expenditure per head (£)**	**Net fiscal balance per head (£)**
North East	8 699	16 662	–7 963
South East	14 013	15 650	–1 637
United Kingdom	11 837	16 575	–4 737

Figure 5: Other economic indicators

	House prices, October 2022		**Share of employment in the public sector, April–June 2022, % of all jobs**	**Share of employment in manufacturing, April–June 2022, % of all jobs**
	Average, (£000)	**% change on year**		
North East	163	11.6	21.2	8.8
South East	402	10.0	14.9	5.7
United Kingdom	295	10.3	17.2	7.3

Source: House of Commons Library, accessed February 2023

Differences in the prices of goods and services affect the real value of people's money income. Data published in 2016 showed that in London, the region with the highest price level, prices were 7% higher than the UK average. Northern Ireland had the lowest relative price level, which was 2.3% lower than the UK as a whole.

Turn over for the next Extract

Extract C: The 'levelling up' agenda

In its 2019 election manifesto, the Conservative Party said it would be 'levelling up every part of the UK'. In February 2022, it published a White Paper that presented its plans for tackling regional and local inequalities that focused on increasing investment and growth in the less-prosperous parts of the country. The policy is not just about productivity, earnings and employment, it also aims to narrow the regional divide in terms of health, educational attainment, housing quality and other social inequalities. The policy aims to improve opportunities for growth and development in the less-prosperous areas of the UK whilst preserving and building on the successes of the already prosperous regions.

Investment in physical capital, human capital and innovation are identified as important factors in driving improvements in the prosperity of people in the poorer regions but they are not all that is required. Effective local management, access to finance and strong local community relationships are also needed if a sustained improvement in prosperity is to be achieved.

Poor connectivity is a significant reason why productivity in parts of the UK is lower than the national average. Inadequate transport infrastructure, in particular an outdated rail network, mean that, for example, businesses in Manchester can find it hard to recruit workers from a city as close as Bradford, restricting their ability to expand. Investment in providing fast broadband and other digital infrastructure is needed to improve communications and efficiency. Investment in infrastructure can help to boost short-run growth and bring about a long-run improvement in productivity. Improvements in productivity should lead to higher wages and an increase in living standards.

Source: News reports, February 2023

Extract D: Is regional policy destined to fail?

Change is a feature of a dynamic, evolving economy and people need to adapt to different circumstances and grasp new opportunities. The Austrian economist Joseph Schumpeter, called this process of dynamic change, 'creative destruction'. Whilst some regions benefit from change others suffer. In the UK, deindustrialisation and globalisation damaged some regions but others flourished.

Market forces might be expected to reduce the differences in economic prosperity between the regions. Higher wages and labour shortages create incentives for the unemployed to move to the more-prosperous regions. Similarly, lower factor costs and a plentiful supply of labour provide the incentive for firms to move to the less-prosperous regions. These movements of people and firms should reduce the difference in incomes earned by workers in the more-prosperous and less-prosperous parts of the country.

Yet, there are a number of reasons why market forces may fail to reduce regional inequality. For example, workers may not be sufficiently mobile and the benefits firms derive from being located in more-prosperous regions often outweigh the difference in factor costs.

Since the Second World War, a variety of approaches to reducing regional inequalities have been tried. Regional policy usually involves the government providing financial and other incentives for firms to locate in the less-prosperous regions and sometimes restricting their ability to locate in the more-prosperous areas. It can also involve helping workers acquire new skills and encourage them to move to where there are job vacancies.

However, government spending on regional policy can be expensive and may be ineffective. When people move, they take their spending power with them and there are regional multiplier effects. Government attempts to dissuade firms from locating in the prosperous regions may mean that the investment does not take place and overall economic growth is reduced.

Nevertheless, high unemployment and low productivity in some regions represents a waste of the country's economic potential. It has been estimated that levelling-up could increase output by £83 billion, which is more than 4% of the UK's GDP.

Source: News reports, February 2023

END OF EXTRACTS

There are no sources printed on this page