

# Opinion – Lessons from Europe for the UK's Battle Against Economic Inequality

Written by Andrew Maitland

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ANDREW MAITLAND, JAN 3 2021

It is just over a year since the Conservative Party convincingly won the UK General Election. While the British Government has spent much of 2020 tackling the dual challenges of negotiating the UK's exit from the EU and responding to Covid-19, much of the Conservative's electoral success stemmed from its promises to tackle regional inequality. Large numbers of traditional Labour Party voters in the North of England 'lent' their votes to the Conservatives based on the latter's support for what they titled the 'Levelling Up Agenda': tackling the economic imbalance between the UK's most wealthy regions and those which lag behind. Now that Prime Minister Boris Johnson has successfully concluded negotiations with the EU, the Conservatives will be determined to begin fulfilling this key manifesto commitment.

The UK is one of the most unequal developed countries in the world. Only the US, Romania and South Korea are more polarised in areas such as health, jobs and disposable income. Traditionally, regional inequality has been presented in terms of the economic divide between the north and south of the country. The South East of England is by far the most affluent region of the UK, with a disposable income of £28,000 per head versus £16,000 per head in the country's poorest region, the North East of England. The effect of this difference has had real world consequences. Those born in Glasgow for example can expect to live on average ten years less than those born in the Chilterns, just outside of London.

The gap between the North and South has rapidly increased in the UK from the 1980s onwards. Many areas of the North, reliant on traditional industries such as manufacturing, mining and shipbuilding, saw massive rises in unemployment and poverty as these professions declined. The South however, where manufacturing jobs were not as significant, benefited from the rise of the new services industry, and from new laws which allowed individuals to purchase their council houses at reduced rates. However, it is important not to oversimplify this divide, as great disparity exists between neighbouring local authorities too. For example, There remains great economic disparity between different boroughs of London – despite generally higher wages in London, Barking and Dagenham, in the east of the city, has a median full-time earning rate 3% less than the UK national average. Chelsea and Kensington meanwhile is 53% higher than this average.

Addressing inequality is essential to making a better UK for everyone, not just those living in higher levels of poverty. A 2014 OECD study found that the UK's high levels of inequality meant that economic growth was 6-9% lower than it otherwise could have been. This is because individuals living in deprivation generally have lower levels of education and end up with low-skilled jobs which contribute little to the economy. This simultaneously allows the rich to get high-skilled jobs with little competition, which reduces efficiency. High levels of inequality also damage societal trust and lead to higher crime rates. According to the Equality Trust, 'Small permanent decreases in inequality – such as reducing inequality from the level found in Spain to that in Canada – would reduce homicides by 20% and lead to a 23% long-term reduction in robberies'. Individuals living in areas of high inequality also demonstrate worse levels of both mental and physical health, including higher rates of obesity and child mortality. In the UK, these outcomes will lead to increased pressures on the National Health Service, harming health outcomes for society as a whole. The wider economic impact of mental illness in England has been estimated at £105.2 billion every year.

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While the British Government is ambitious in its goals to reverse this pattern of regional inequality, it is clear that a long-term plan is required, which will extend far beyond the life of this parliament. The UK2070 Commission, an independent inquiry into tackling the UK's regional inequalities, published its final report in March 2020 which identified a variety of areas which the UK Government should focus on. The Commission identified ten key areas that this Government, and those that succeed it, must focus on in order to tackle inequality. These priorities include:

- Improved inter-city connectivity, offering better road and rail links not only between major urban centres but also to marginalised and rural areas
- Rethinking the housing crisis, giving devolved and local authorities a greater role in planning and integrating housing development into wider metropolitan infrastructure planning
- Furthering devolution, ensuring that local government can take the lead in tackling local challenges
- Improving education outcomes and up-skilling workers to help individuals escape being trapped permanently in the lowest earning jobs
- Tripling the new Shared Prosperity Fund to £15bn per annum and continuing that commitment for 20 years – an extra expenditure of £200bn over that already planned

The challenges that the UK faces are not unique. There are a variety of policies which have proved successful in reducing regional deprivation in other countries which could be adapted to work in the UK context. Up-skilling the workforce for example is a key area in tackling long-term economic inequality. Germany for example has a long tradition of ensuring a high percentage of its population receive practical, skills-based training to ready them for participation in the labour market. The 'dual training system' allows Germans to attend a vocational school while also working at a company for a period of between two and three and a half years. In Germany, about 50% of all school-leavers undergo vocational training provided by companies which consider the dual system the best way to acquire skilled staff. Unlike in the UK, in Germany there is a close collaboration between national and local government as well as industry in ensuring apprenticeships meet the needs of both business and the apprentices themselves. Companies pay these apprentices, not the state, as regularly the case in the UK. The system has helped ensure that Germany's economy is highly efficient as well as significantly reducing youth unemployment – providing opportunities for those who would otherwise go without. Numerous countries are working closely with Germany to revamp their apprenticeship system, and the UK could successfully collaborate with Germany in this area.

European nations can also provide valuable lessons for the UK in pre-school education. Denmark legally guarantees that all children from aged 26 weeks can access pre-school care until they start primary school, while numerous other European states provide similar offers. Universal, free pre-school care has shown a levelling out effect on students as they reach secondary school age, ensuring that there is less of a gap between pupils from different economic backgrounds, unlike in countries where pre-school care is a luxury available only to the wealthy. In comparison, the average price of full-time nursery in the UK is £242 per week, which is roughly 50% of the average household disposable income. It also has an immediate benefit, which allows mothers to return to the workplace more quickly and easily, reducing long-term unemployment.

The UK Government has progressively worked towards improving devolution since the late 1990s, and recently this has extended to local authorities in England as well as the nations of Scotland, Wales and Northern Ireland. However, more extensive devolution in other European states has been cited as a factor in mitigating the damage caused by deindustrialisation, and subsequent poverty. In Germany for example, 69 pence in every pound raised in tax is spent by central government, compared to the UK where central government spends 95 pence. The Social Market Foundation however note that currently in the UK 'Local devolution policy has been very much framed around (economic) growth... very little has been said about the role (if any) of devolution in tackling poverty.' Greater devolved powers have allowed cities and regions in Europe to take proactive steps to tackle the root causes of inequality. Hamburg for example has been able to force house developers to ensure that a third of new properties developed in the city are social housing, and a further third affordable for the less affluent. Given the burden of affordable housing in London, new powers would enable to tackle this form of inequality.

Tackling inequality in the UK will require Government commitment to long term planning as well as the use of inventive policy making to ensure it remains a sustainable policy goal. While the uncertainty of Covid-19 and the UK's

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exit from EU may make this more challenging, tackling inequality is a valuable investment in protecting the UK's economic future, as well as a key step in improving the lives of its most vulnerable citizens.

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### About the author:

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