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# REGIONAL *Review*

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## Regional Review

In July the Department of Industry released a set of indicators of relative regional competitiveness. Regional competitiveness is defined here as the ability of regions to generate high income and employment levels while remaining exposed to domestic and international competition. Some of the indicators presented are primarily measures of the outcome of the competitiveness process. Such figures include regional gross domestic product (GDP) per head, the degree of dependence on social security benefits, the regional labour force participation and unemployment rates. Other indicators, such as labour productivity, the extent of education attainment, research and development (R & D) intensity and the rate of new firm formation, are reported as sources of differential competitiveness. Finally some indicators, such as average earnings and property rentals, have a rather ambivalent status in that they contribute both to regional incomes and to regional costs.

Figure 1 gives the regional GDP per head shown as an index, with the UK average set at 100. Gross domestic product is here interpreted as the incomes of residents from productive services (so that transfer payments, such as unemployment and other social benefits are not included). What is clear is the dominance of the regions of South-East England; London (L), the South East (SE) and the Eastern region (E). These are the only regions with values above the UK average, London being the highest with a value of 123.3. At the other end of the scale, Northern Ireland (NI), Wales (W) and the North East (NE) have figures around 15% below the UK average. The Scottish level is 97.4.

The most obvious source of income variations between regions is the average wage rate. Figure 2 presents average hourly earnings for full-time employees across regions. Again, note the very clear dominance of London where the wage is 32.2% higher than in the rest of the UK. Whilst in general there is a positive relationship between measures of tightness of the regional labour market and the wage, this is not the case for

London, where the unemployment rate is relatively high and the labour participation rate comparatively low. However, there is extensive commuting into London and there are low unemployment and high participation rates in the adjoining South East and Eastern regions.

But as the Department of Industry note, high wages must be matched by high productivity if competitiveness is not to be adversely affected. Figures for labour productivity in manufacturing are given in Figure 3. This indicates a much more even distribution across regions, with many more regions above the UK average. Scotland performs particularly effectively here with a value only marginally below London and the South East. But it is important to remember that manufacturing only accounts for around one fifth of the output of the UK economy and comparable data for productivity in service sectors are not available.

Other indicators of the potential sources of competitiveness are of interest. The available data on educational differences fails to identify major differences across regions. However, Figure 4 shows the rate of new firm formation as a percentage of the stock of existing businesses. This again shows London with a value one third higher than the UK average. Figure 5 gives an indication of the R and D intensity of manufacturing. Whilst London does not perform particularly well on this criteria, the South East and the Eastern regions do. A similar, but less spectacular result applies for the proportion of the region's employment in high technology industries.

It is clear that firms are able to sustain high wages in the regions of South East England and particularly in London. The source of this ability is unclear from the figures given by the Department of Trade and Industry. It seems likely to rest in service industries and be related at least partly to the industrial and skill distribution in those regions. But, it is the case that some of the key measures of more dynamic aspects of competitiveness - the rate of new firm formation and R and D intensity - are strongly present in the South East.

However, the question must be asked as to the precise nature of the lesson to be learnt from this. The high GDP per head in the South East of England is accompanied, for companies, by high labour and property costs. Similarly for the consumer there are high housing, commuting and congestion costs. A key variable missing from the government's regional competitiveness statistics is

the regional consumer price index, a figure not produced in the UK. Moreover, the idea that an increase in competitiveness will solve the problems

or regional disadvantage is too simplistic. London is measured to be the most competitive region but also has one of the highest unemployment rates.



