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BEATTY, Christina <http://orcid.org/0000-0003-0943-9979> and
FOTHERGILL, Stephen <http://orcid.org/0000-0002-4201-0640>

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THE LONG SHADOW OF INDUSTRIAL BRITAIN'S DEMISE

Christina Beatty and Steve Fothergill

The rediscovery of old problems

Since the UK's referendum vote to leave the EU there has been renewed interest in 'places left behind', and in particular in Britain's older industrial areas. Partly this is a reflection of Prime Minister Theresa May's own rhetoric but the revival of interest also reflects the realities of voting patterns and economic statistics.

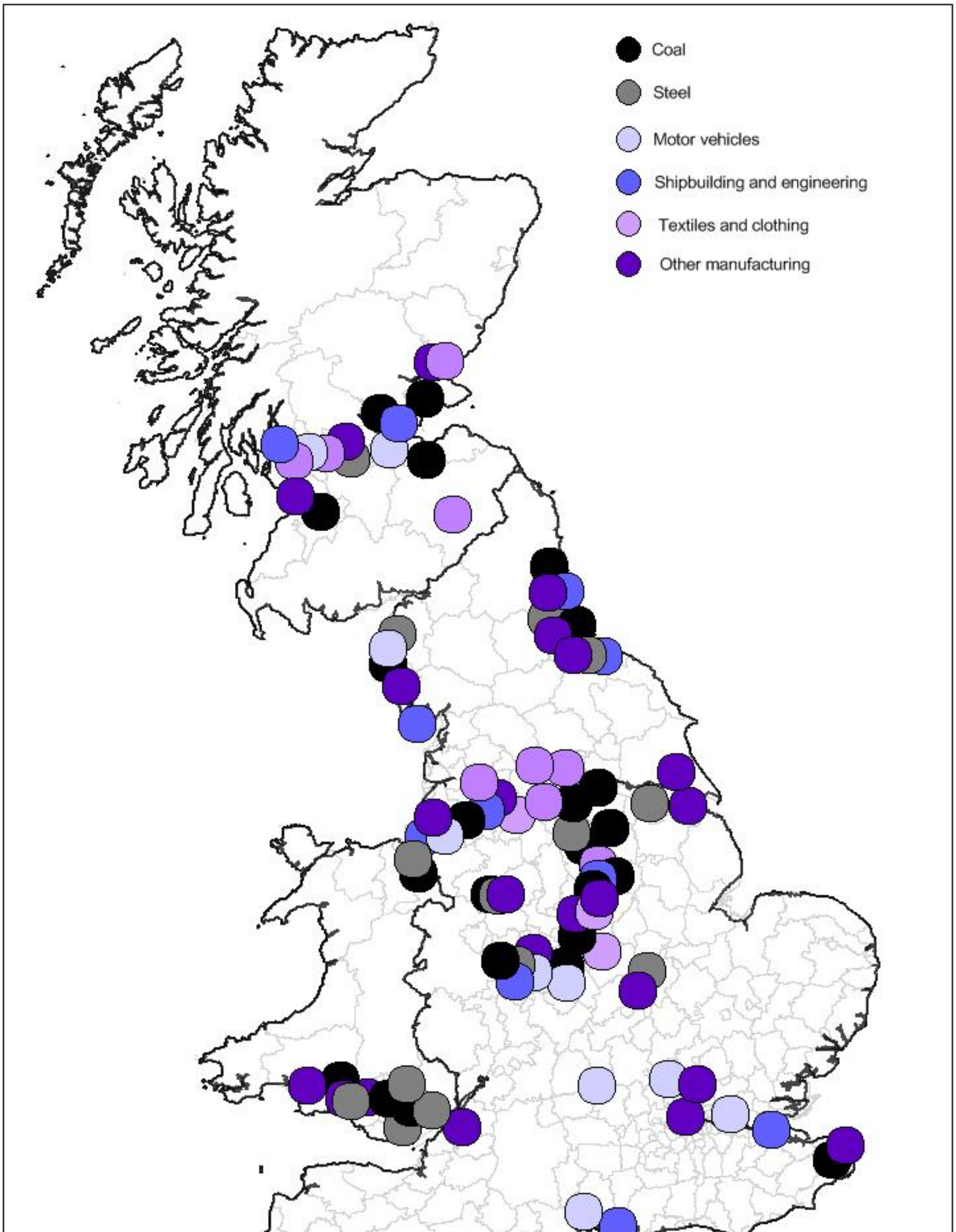
In England and Wales, the older industrial areas away from the big cities – the places once dominated by industries such as coal, steel, textiles and heavy engineering – nearly all voted for Brexit, generally by a margin of two-to-one. This came as a shock to commentators who thought that the political and economic consequences of industrial job loss, so prominent in the 1980s and 90s, had been consigned to the past. In numerous older industrial towns it seems that voters take a negative view of the merits of globalisation and that any spill-overs in prosperity from neighbouring cities have largely felt illusory.

In reality, the problems arising from industrial decline never went away. In this article we explain how the loss of industrial jobs, sometimes a generation ago, still casts a shadow over the labour market and benefit claimant rates in older industrial Britain and, as a result, over contemporary public finances. We also explain how the UK government's new interest in industrial strategy looks at this stage to offer little transformative. The full evidence in support of our arguments is published elsewhere (see in particular Beatty and Fothergill 2016a, 2017). Here we necessarily confine ourselves to the main points.

The destruction of industrial Britain

Britain was once a major industrial employer. In 1966, 8.9 million worked in manufacturing and a further 500,000 in the coal industry. This compares with just 2.9 million employed in manufacturing in 2016 and none at all in the coal industry except at a handful of opencast sites and tiny drift mines. The shift from manufacturing to service employment is a phenomenon shared by other advance economies, rooted in differential rates of productivity growth and accentuated by globalisation, but in Britain the process of deindustrialisation has gone further and faster than just about anywhere else. The industrial job losses were particularly large in the 1980s and 90s.

Figure 1: Major industrial job losses since the early 1980s



Source: Sheffield Hallam University

These job losses were concentrated in specific parts of the country – mostly but not exclusively in the 'older industrial areas' of the North, Scotland and Wales. In many cases the economic base of whole communities was destroyed. By contrast, London escaped relatively lightly and so did most of its vast hinterland in the South and East of England.

Figure 1 illustrates the geography of the job loss since the early 1980s. Manufacturing employment has fallen just about everywhere across the UK so this map does not try to show the location of every closure or redundancy over the last three and a half decades. Rather, it flags up the biggest or most significant job losses, where major companies or industries have shrunk to a fraction of their former scale or disappeared entirely. The concentration in a number of specific areas is especially noticeable. It is not the whole of the North, nor indeed the whole of Scotland or Wales, that has been hard hit. Many rural areas, for example, were less affected. Anyone familiar with the UK will recognise that it is the industrial cities, towns and coalfield areas that suffered the big job losses – central Scotland, the North East of England, West Cumbria, a large swathe of the North West of England and Yorkshire from Liverpool across to Hull, parts of the Midlands including Birmingham and Stoke, and South Wales.

Labour market adjustment

The 1980s are remembered in Britain as a period of high unemployment. The number of unemployed hovered around 3 million for a number of years, which was perhaps to be expected given the scale of the job loss. But after the early 1990s recession, the numbers claiming unemployment benefits fell away, declining to under 1 million for most of the 2000s and after the 2008 financial crisis returning to below 1 million once more. If claimant unemployment alone were to be the guide it might be argued that the UK economy has got over deindustrialisation. Unfortunately, this optimistic assessment is wide of the mark.

The first clue to what was really happening in older industrial areas came from the coalfields. By the early 1990s most of the pits had shut but claimant unemployment in the coalfields was no higher than when the pits had been working. This was not what most observers had expected. We therefore picked apart the trends in the coalfield labour market. How much of the low claimant unemployment could be explained by commuting to neighbouring areas, by out-migration, or by new job creation? The conclusion was in fact that the main response to coal job loss was a diversion of working-age men into 'economic inactivity'. Looking closer, this was primarily a withdrawal from the labour market into what the Census called 'permanent sickness' – in practice onto incapacity-related benefits. So job loss had indeed resulted in an increase in benefit claims but not in the way that had been expected.

In a follow-up study we brought the figures forward by a decade or so. A lot more had happened, particularly on the job creation front, but the fundamental conclusion remained the same: the big labour market adjustment in response to coal job losses was an increase in economic inactivity among working age men. Furthermore, because many of the ex-miners had by then reached state pension age it was clear that the increase in economic activity must be occurring much more widely across the local workforce. In effect, job loss for one generation was being passed on as higher economic inactivity among the next.

The coalfields pointed the way but it quickly became apparent that their experience was not unique. Across the whole of older industrial Britain, from the mid-1980s through to the early 2000s there was a huge surge in the numbers out of the labour market – 'economically inactive' – on incapacity-related benefits. We argued that much of the increase in incapacity numbers was a form of 'hidden unemployment'. These were men and women who in a fully employed economy might have been expected to be in work but whose health problems or disabilities entitled them to incapacity-related benefits instead of unemployment benefits.

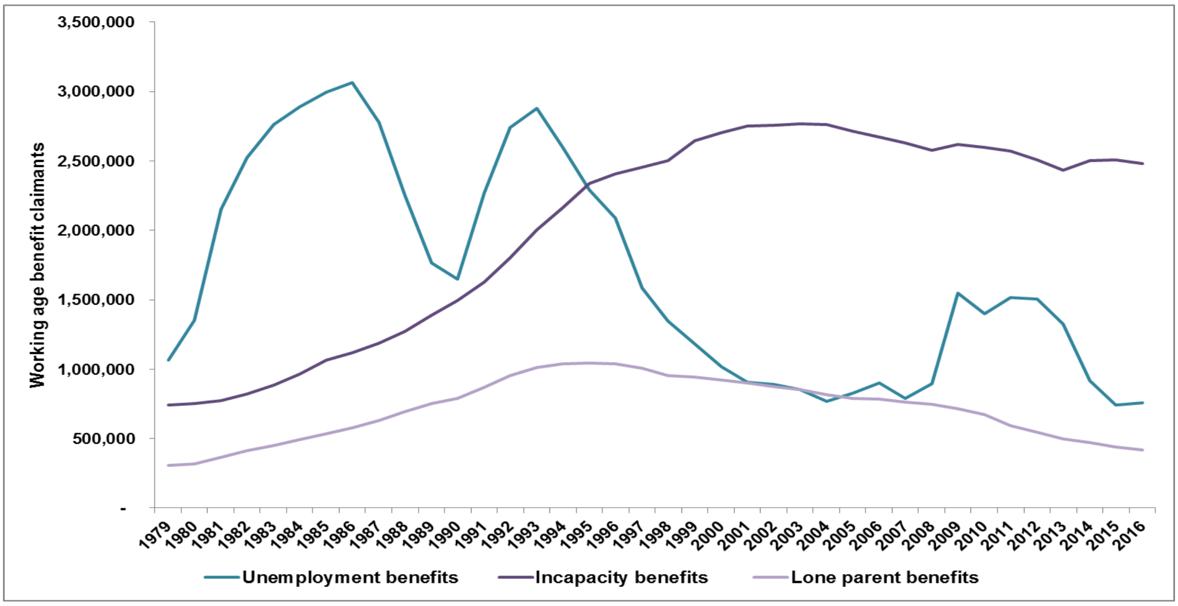
The increase in incapacity numbers in older industrial Britain occurred among women as well as men. At first this seemed hard to understand because the heavy industries shedding jobs had previously mainly employed men. What became apparent, after much detailed research in the former coalfields and elsewhere, is that these days the male and female sides of the labour market interact so that a shortfall in opportunities for men is transmitted, through competition for jobs, to a difficult local labour market for women in the same places. Out-of-work women with health problems or disabilities generally end up on incapacity-related benefits just like their male counterparts.

So in response to the large-scale loss of jobs in older industrial Britain claimant unemployment did fall back to low levels, but the near-permanent effect has been to raise incapacity claimant numbers, both among men and women.

The impact on present-day welfare spending

Figure 2 shows the numbers claiming the three main out-of-work benefits, for 1979 to 2016 for Britain as a whole. As we noted, the numbers claiming unemployment benefits – Jobseeker's Allowance from 1996 onwards and Universal Credit more recently – have fallen back to below 1 million. The numbers claiming lone parent benefits – Income Support for most of this period – rose from around 300,000 at the start of the 1980s to a peak of around 1 million in the mid-1990s. The evidence on the geography of lone parent claims points clearly to job loss among men as a key factor. In the places where men's jobs had disappeared, such as older industrial Britain, the ability of men to provide financial support to women and children had been eroded. More recently, the numbers on lone parent benefits have fallen, not least because eligibility has gradually been restricted just to those with the very youngest children. The striking feature of Figure 2, however, is the rise in the numbers out-of-work on incapacity-related benefits, from around 750,000 to a plateau of around 2.5 million. The numbers have declined a little from the all-time high in the early 2000s but not by much.

Figure 2: Working age benefit claimants, 1979-2016



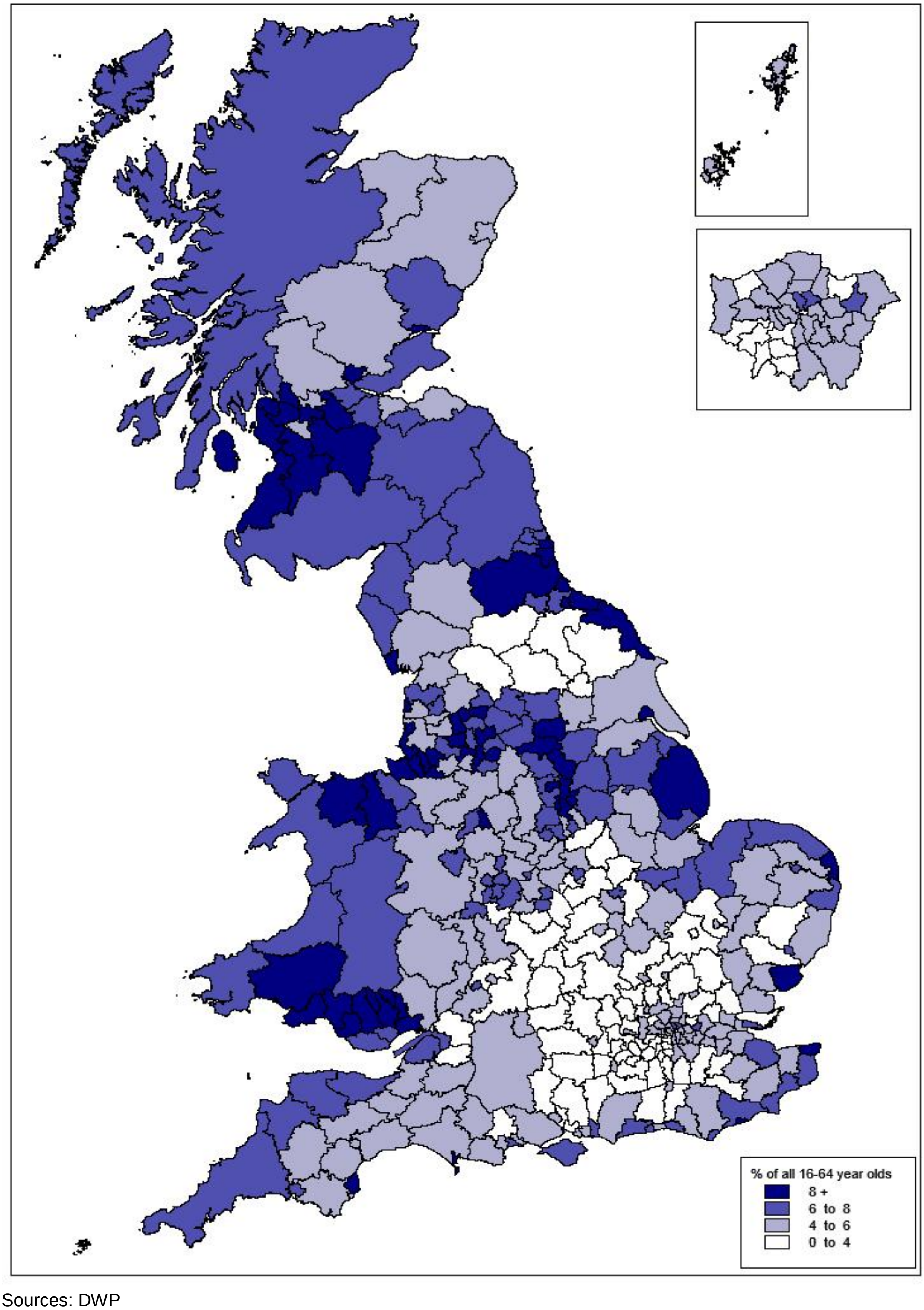
Source: DWP

There are two remarkable aspects of the incapacity numbers. First, they are largely invisible. The figures surface in the media from time to time but probably few beyond those who follow these issues would be aware that the numbers currently out-of-work on incapacity-related benefits exceed the numbers on unemployment benefits by three-to-one and that, the immediate post-financial crisis years excepted, this has been the situation since the end of the 1990s. The other remarkable aspect of the incapacity numbers is that they have stayed so high for so long despite multiple efforts to bring them down.

The key insight comes from the local numbers. Figure 3 shows the share of adults of working age claiming incapacity-related benefits in November 2016, by district across the whole of Britain. It is immediately apparent that there are huge variations across the country. Moreover the pattern is systematic. The highest incapacity claimant rates are mostly found in older industrial Britain – places such as the South Wales Valleys, North East England, Merseyside and Clydeside. In contrast, the incapacity claimant rate in much of the South and East of England, especially outside London, is modest.

Typically, the incapacity claimant rate in older industrial Britain is just above or below 10 per cent, meaning that one-in-ten of all adults between the ages of 16 and 64 in these places are out of the labour market on Employment and Support Allowance or in a diminishing number of cases on one of its predecessor benefits. In Blaenau Gwent in South Wales the incapacity claimant rate is 12.0 per cent. In Glasgow the rate is 11.5 per cent. In Liverpool it is 10.7 per cent, in Stoke-on-Trent 10.0 per cent and in Middlesbrough 9.9 per cent.

Figure 3: Incapacity-related benefit claimant rate by district, November 2016



Sources: DWP

Of course, older industrial Britain often has higher underlying levels of ill health so we might expect to find higher incapacity claimant rates here. But it is worth remembering that the surge in incapacity claimant numbers in these places only happened after the industrial jobs began to disappear. When the mines, steelworks and the like still employed vast numbers, far more people were actually exposed to damaging impacts on their health but far fewer made incapacity claims. What appears to be happening is that where there are plenty of jobs the men and women with health problems or disabilities are able to hang on in employment or find new work if they are made redundant. Where the labour market is more difficult, as in older industrial Britain, ill health or disability ruins many people's chances of finding and keeping work.

Employment and Support Allowance (ESA), onto which nearly all incapacity claimants have been moved, is not overly generous but in practice many claimants are also entitled to additional benefits. These include Disability Living Allowance, Housing Benefit, Child Tax Credit, Council Tax Support, and Industrial Injuries Benefit. A number of these benefits are presently being merged into Universal Credit but the rules governing entitlement are essentially carried over from the old system. Disability Living Allowance (DLA), which is currently being replaced by Personal Independence Payments (PIP), is worth singling out: around half of all incapacity claimants receive DLA or PIP, and the geography of DLA/PIP claims is remarkably similar to the geography of ESA claims.

It is not easy to assess precisely how much this all costs. The Treasury does not publish overall figures but some components can be measured directly and others can be estimated. The DWP's own data for 2015-16 tells us that £14.9bn a year was spent on working age incapacity-related benefits, these days nearly all ESA. To this needs to be added an estimated £7.2bn a year paid to the same claimants in the form of DLA/PIP, £7bn a year in Housing Benefit and £3.2bn a year in Tax Credits. The grand total for the benefits received by incapacity claimants comes to just under £34bn a year (see Beatty and Fothergill 2016a, 2017).

The costs to the Exchequer of industrial job loss go still further. One of the defining features of the manufacturing and mining jobs that have been lost on such a grand scale is that they were often relatively high value-added, high wage jobs. In older industrial Britain there has been job growth in the wake of industrial decline but all too often it has been in low-productivity, low-wage activities. In the former coalfields for example, two of the prime sources of new jobs have been call centres and warehouses. Growth in consumer spending has also fuelled job growth in shops, hotels, pubs, restaurants and takeaways. Few of these new jobs are well paid, and many are part-time.

It is the weakness of labour demand in older industrial Britain, stripped of its once dominant employers, that has enabled the new employers to get away with low wages. The ex-miners and ex-steelworkers may have baulked at the prospect of work in a call centre or warehouse and opted out of the labour market instead, cushioned by redundancy pay, early entitlement to pensions and disability benefits, but their sons and daughters have never faced the same choices. With little possibility of remaining on Jobseeker's Allowance for long periods they have had to accept whatever work they can find.

Women's growing involvement in the labour market adds a further twist. In the places once dominated by heavy industry the tradition used to be that male wages supported whole families. Relatively few women with children held paid employment, especially on a full-time basis. That more women in these places now look for paid employment should be welcome progress but they do so in some of the most problematic labour markets in the country. Local economies have to grow very fast indeed if they are to not only replace the jobs that have been lost but also keep up with new labour supply. In practice, the growth has been insufficient and the result has been worklessness, part-time employment and low wages.

All this has knock-on consequences for the Exchequer. Low wages generate low tax returns. At least as importantly, low wages generate a high bill for in-work benefits, notably Housing Benefit, Child Tax Credit and Working Tax Credit. Wherever low wages are the norm, spending on in-work benefits is high. This applies in a number of rural areas, in several seaside towns and in the parts of London where less well-off residents are concentrated. But it also applies across most of older industrial Britain.

Faced with a budget deficit that is high and slow to bring down, successive governments have chosen to reduce spending on working-age welfare benefits. The assumption has been that reductions in working-age benefits will incentivise claimants to find work and encourage in-work claimants to find a better paid job or work longer hours.

In a number of reports (in particular Beatty and Fothergill 2016b) we have documented the uneven local and regional impact of the cuts in welfare spending. Inevitably, they impact most in the places where claimants are concentrated. So it is no surprise that Britain's older industrial areas figure prominently among the worst-hit places. Once more, it is South Wales, the industrial North and the West of Scotland that stand out, whilst large parts of southern England around London are much less affected. It is not difficult to argue that communities in older industrial Britain now face punishment in the form of welfare cuts for the destruction wrought to their industrial base all those years ago.

Industrial Strategy: the way forward?

The alternative would be to address the underlying weakness of the economy in older industrial Britain.

Two principles are key. First, the rhetoric about rebalancing the UK economy needs to be turned into reality. In the wake of the 2008 financial crisis there was much talk about the need to move away from an over-reliance on financial services towards an economy based more on exports and investment. This didn't happen. If anything, the UK economy became more imbalanced as growth returned because the old model based on debt and the housing market was rekindled one more time. A revival in industrial production is central to rebalancing the UK economy. A rebalancing in favour of industry would also be of direct benefit to much of older industrial Britain because, even after years of job loss, that is where so much of what remains of UK manufacturing is still located.

The other principle is a revival of regional economic policy. The places where welfare claimants are concentrated, out-of-work or on low wages, need to be grown fastest. At the present time the UK probably has its weakest regional economic policies since the Second World War. Indeed, what masquerades as regional policy is more often the promotion of competition between places or the devolution of powers to local authorities, which is really about governance and has only a tenuous connection to prosperity.

Whether the UK government's new industrial strategy (HM Government 2017) marks a turning point is however questionable. Most aspects of the strategy look distinctly like 'business as usual' and this led a Select Committee inquiry to conclude that "while the government's rhetoric marks a step change, and the creation of a new Department for Business, Energy and Industrial Strategy has significantly raised expectations, the government's approach appears to be evolutionary" (Business, Energy and Industrial Strategy Committee 2017).

The only substantial new money has been committed to research and development, but here the government's focus is on a narrow range of sectors at the very leading edges of technology. In targeting additional R&D resources at such a small slice of manufacturing, large parts of Britain stand to gain very little, and in the first instance much of the R&D funding looks likely to find its way to laboratories in and around Oxford, Cambridge and London (Fothergill et. al. 2017).

So for the moment the prize of a revival in industrial Britain, and of lower spending on welfare that is not based on hitting the poorest places hardest, still seems some way off.

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Christina Beatty is a Professor within the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University. She has published widely on the uneven impact of welfare reform and the economic geography of Britain.

Steve Fothergill is a Professor within CRESR at Sheffield Hallam University. He has written extensively over several decades on many aspects of UK urban and regional development.