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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Monday 13 June 2022 – Afternoon

A Level Economics

H460/03 Themes in economics

Resource Booklet

Time allowed: 2 hours

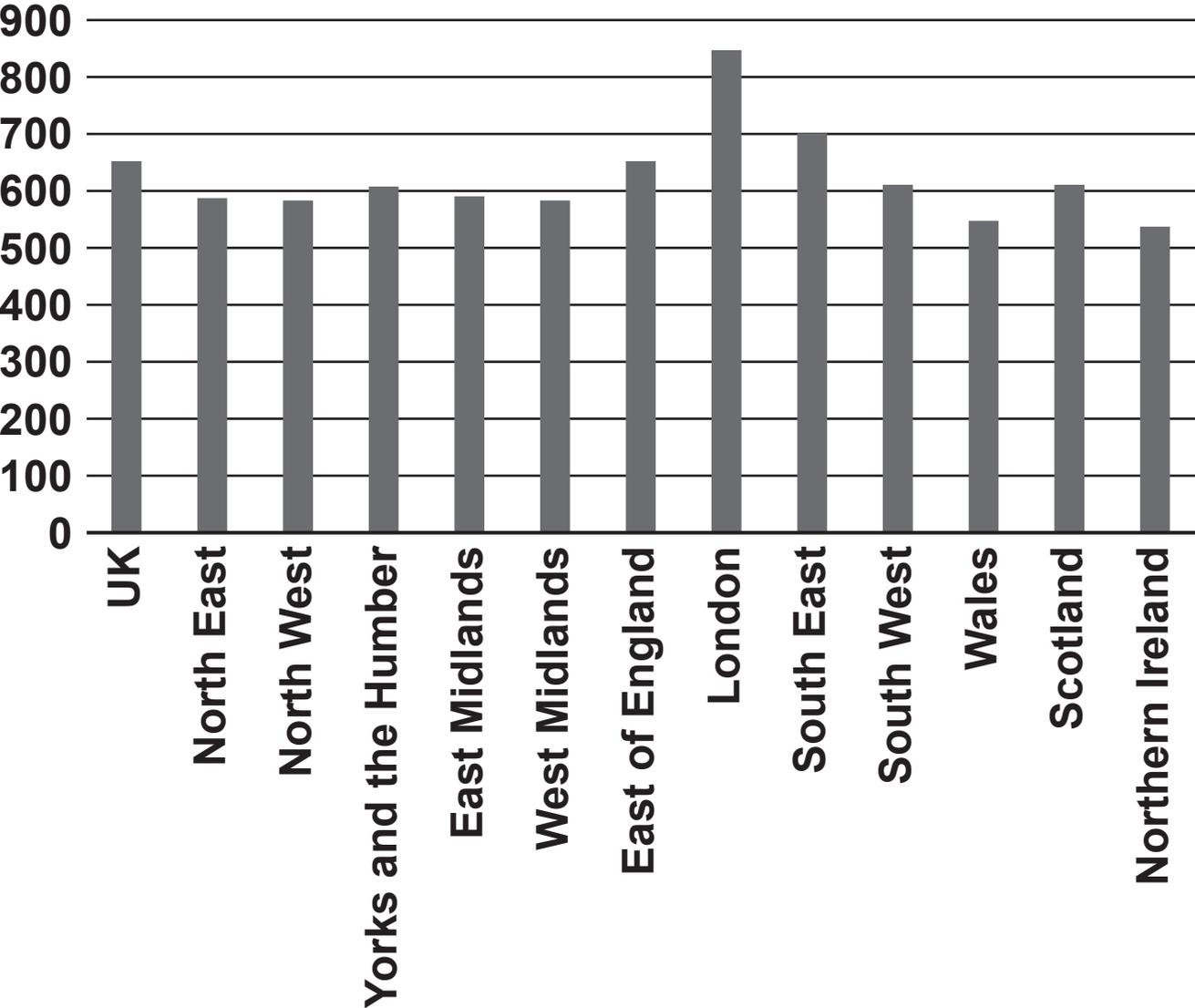
plus your additional time allowance



EXTRACT 1 – The ‘levelling up’ agenda

In December 2019 Boris Johnson’s Conservative Party won a majority in the General Election, in large part because it secured the votes of people in the North and Midlands that had never voted Conservative before. The government attracted these voters with a promise to ‘level up’ the UK, reducing the inequality that exists between regions. Whilst the country’s large cities and towns are amongst the most productive and prosperous in Europe, other parts of the country lag far behind, resulting in stark wage differentials between regions illustrated in Fig. 1.1 opposite.

Fig. 1.1
Average Weekly Wage (£s) by region in 2020



It is argued that a decrease in labour market flexibility is partly responsible for the widening regional inequality. A significant cause of this is the increasing gap between house prices in different parts of the country, as shown by the data in Fig. 1.2. This makes it harder for individuals to relocate to high wage areas, preventing market forces from reducing wage differentials.

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Fig. 1.2
House Prices by Region 1995–2020 (base year = 1995)

| Region | Average House Price Index | | |
|--------------------------|---------------------------|------|------|
| | 1995 | 2005 | 2020 |
| East Midlands | 100 | 216 | 294 |
| East of England | 100 | 211 | 345 |
| London | 100 | 209 | 422 |
| North East | 100 | 203 | 262 |
| North West | 100 | 177 | 248 |
| Northern Ireland | 100 | 193 | 259 |
| Scotland | 100 | 164 | 255 |
| South East | 100 | 198 | 316 |
| South West | 100 | 229 | 318 |
| Wales | 100 | 184 | 243 |
| West Midlands | 100 | 180 | 254 |
| Yorkshire and the Humber | 100 | 179 | 250 |

There are other factors that further explain labour market inflexibility. The UK's relatively poor transport infrastructure, individuals being unaware of job opportunities outside of their local area and perhaps more significantly a lack of transferable skills trapping workers in low paid jobs, all contribute to the problem. However, it could be said that technological progress is helping to make the labour market more flexible over time. 25

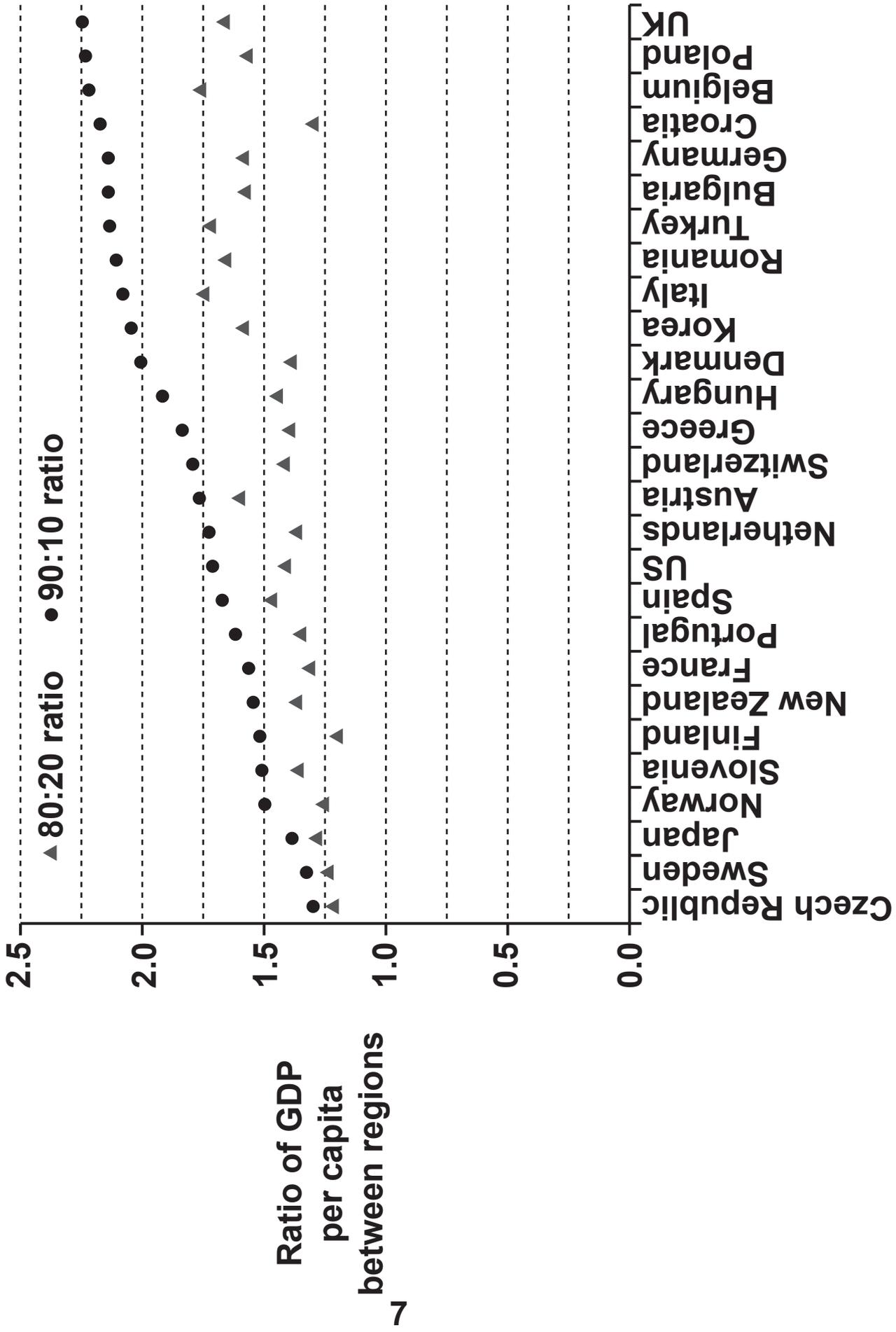
Some therefore argue there are other causes of regional wage differentials beyond the flexibility of the labour market. Whilst the proportion of the workforce with an undergraduate degree has been rising in recent decades, this is not spread evenly across the country, with much of the increase concentrated in London. The nature of employment has changed dramatically in recent years; technology has seen labour substituted in some semi-skilled occupations whilst at the same time increasing demand for highly skilled workers. This makes the distribution of skills across the UK particularly relevant. The impact of large multinationals in the financial and scientific sectors typically choosing to locate in the South of England must also not be underestimated. 30
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EXTRACT 2 – The policy response

The data in Fig. 2.1 opposite compares the level of regional inequality around the world. For example, the 90:10 figures denote the ratio between regional GDP per capita in the 90th percentile (income level which only 10% of the country's regions exceed) to the 10% percentile (the level which only 10% of the country's regions have less than).

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Fig. 2.1
Measures of inequality in regional GDP per capita, by country



It demonstrates the need for an urgent policy response by the UK government. In November 2020 a £4 billion fund was announced, which prioritised the need to upskill much of the population to address low productivity levels and invest heavily in improving the public transport network. 10

The commitment to this fund follows a report by the Institute of Fiscal Studies in October 2020, which presented a number of policy options the government could implement to address regional inequality: 15

Invest in high speed rail in the North, in doing so addressing current inequality in government spending on transport which is 2.8 times per capita higher in London than in the rest of the UK. 20

Subsidise research and development to create prosperous, knowledge-based local economies in left behind regions to tackle unbalanced spending in this area (research and development spending in the South East of England is 1.8 times higher per capita than in the rest of the UK). 25

Move a number of government departments and civil service jobs away from London to the regions to address the fact that at present 20% of all civil servants are based in London, along with 64% of the most senior government jobs. 30

Provide targeted funding for specific towns to put towards local priorities, including retraining and skills support as well as investment in culture and heritage, partially to address the problem of struggling high streets in these towns. 35

Deciding on the most appropriate policy response is complicated by the wider challenges presented to the labour market by Brexit. On the one hand it is argued that tighter controls on immigration will benefit low skilled workers, but on the other there are serious concerns that the same group of workers in manufacturing towns already scarred by persistent long term unemployment resulting from deindustrialisation will suffer from the negative employment consequences that could result from more barriers to trade with the EU.

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EXTRACT 3 – Growth at all costs?

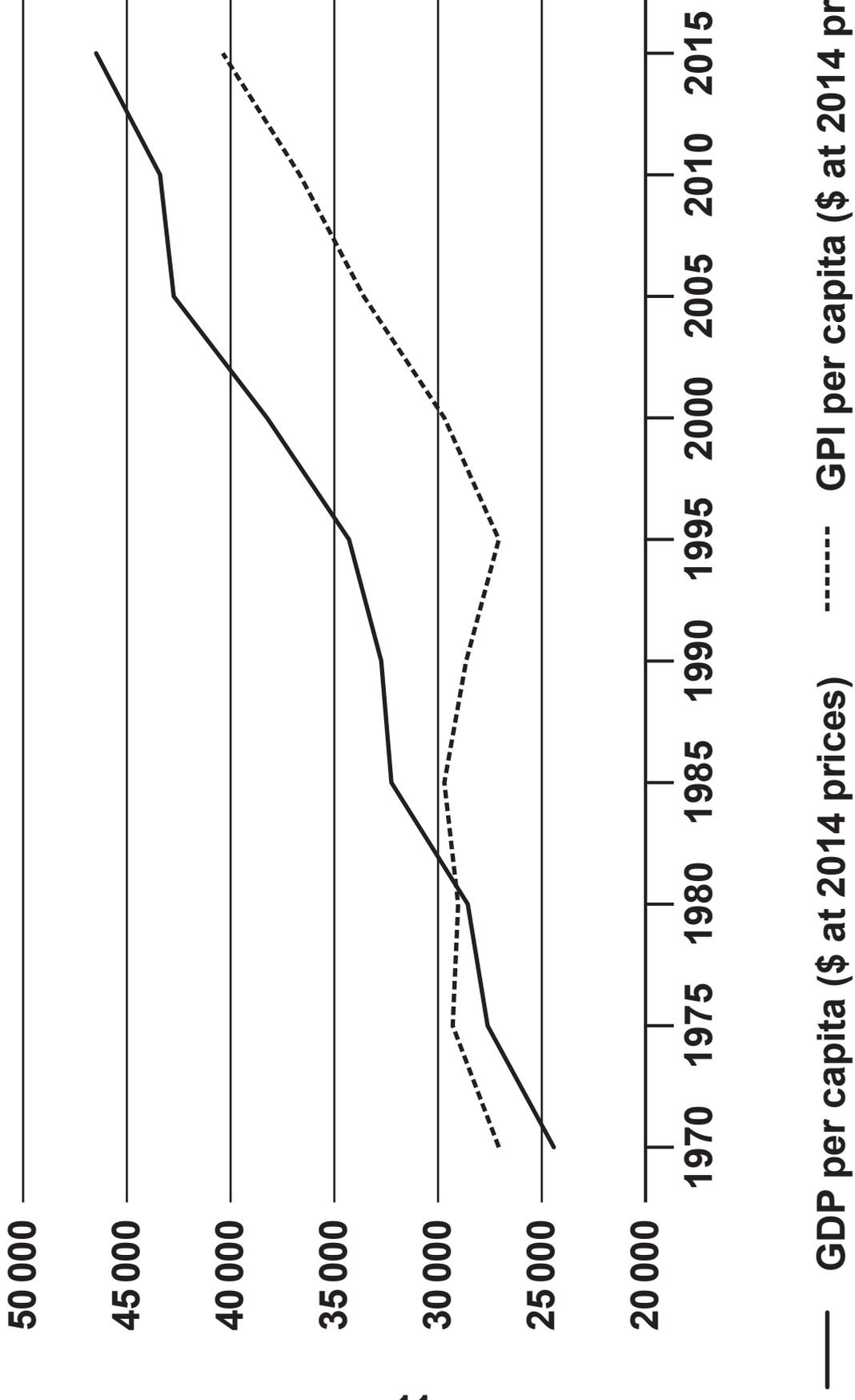
The UK government has been very clear that ‘levelling up’ is not about redistributing income from London to the North but by increasing incomes across the UK, with incomes in the North rising faster than in London to enable them to catch up. 5

However, the principle underpinning this – that economic growth is desirable – is increasingly coming under question. It can be argued that economic growth will not always lead to an 10

improvement in welfare, with some economists suggesting the Genuine Progress Indicator (GPI), which includes factors such as the distribution of income, environmental standards and the cost of crime, is a more effective measure of standard of living. Fig. 3.2 opposite charts the relationship 15

between GDP and GPI in New Zealand between 1970 and 2015.

Fig. 3.1
GDP and GPI per capita in New Zealand, 1970–2015



There is growing support for the ‘degrowth’ movement, which criticises the global capitalist system that pursues growth at all costs, causing human exploitation and environmental destruction. The degrowth movement instead argues in favour of prioritising social and ecological well-being over profits and consumption. Achieving this would require a strong commitment to reducing global GDP, in doing so utilising less natural resources and requiring us to live our lives differently to the way we do today. Supporters point to data in many developed countries that shows despite significant economic growth welfare has largely stagnated since the 1970s as powerful evidence in favour of this approach. However, such action would clearly require a radical change to the way economists think – virtually no attempt has been made to develop an economic model that doesn’t rely on long term growth.

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