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# Has the UK economy been 'rebalanced'?

In this Brief, the Sheffield Political Economy Research Institute (SPERI) considers the available evidence on whether the UK economy has experienced any significant degree of ‘rebalancing’ since 2010. The need to correct a range of structural imbalances in the British economy became a defining motif of economic policy discourse in the UK in the years following the crisis. It has become associated in particular with the Conservative Chancellor of the Exchequer, George Osborne, but has emerged as a rare shared objective in economic policy for all the major political parties. The Brief examines data on imbalances between the financial and manufacturing sectors, Northern and Southern regions, imports and exports, investment and consumption, and debt and saving. Specifically, it considers whether there has been any significant shift in pre-crisis trends during the life of the Coalition government.

## Background

- The Conservative-Liberal Democrat Coalition government (2010-15) made economic ‘rebalancing’ one of its key priorities, having criticised the preceding New Labour governments for creating and presiding over an unbalanced economy.
- The 2010 coalition statement offered a vision for the UK economy which was not ‘dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries’.
- Similarly, the 2011 ‘plan for growth’ statement argued the case for an economy ‘built on investments and exports, with strong growth more evenly shared between regions and industries’.
- In 2014, despite the resumption of economic growth, George Osborne returned to the theme of rebalancing. He argued that ‘the recovery is not yet secure and our economy is still too unbalanced. We cannot rely on consumers alone for our economic growth, as we did in previous decades. And we cannot put all of our chips on the City of London, as my predecessors did. Britain is not investing enough. Britain is not exporting enough.’
- There is an urgent need therefore to consider the extent to which the UK economy was actually rebalanced along the lines outlined by the Coalition government.
- This analysis serve as both an evaluation of the Coalition government’s success in achieving one of its most important, explicitly stated, objectives, and as a useful resource for the new Conservative majority government in determining what its future economic policy priorities should be.
- As suggested by the quotes above, the apparent imbalances between London and the South East and the North, between finance and manufacturing, between imports and exports, and between investment and consumption are central to the rebalancing agenda.
- The Brief also considers the relationship and apparent imbalance between debt and saving (considered significant in itself, but also insofar as it fuels a consumption-dependent economic model).

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## Evidence

### Sectors

- The manufacturing sector is now a smaller component of overall economic output, that is, 9.7 per cent of total gross value added (GVA) (Q4 2014), compared to 10.9 per cent before the financial crisis (Q3 2007).
- The finance and insurance sector is also a smaller component of overall output, that is, 7.4 per cent, compared to 9.9 per cent.
- There are now fewer jobs in the manufacturing sector, that is, 2.64 million (Q1 2015), compared to 2.86 million before the financial crisis (Q3 2007).
- There are also slightly fewer jobs in the financial and insurance sector, that is, 1.13 million, compared to 1.15 million.
- Pay in most manufacturing industries, relative to the national average, has changed only slightly. It is now 113.6 per cent of the national average (2014/15), compared to 111.7 per cent before the financial crisis (2007/8), in the metals industry. In chemicals, these figures are respectively 151.7 and 137.9 per cent; in textiles they are 78.7 and 78.9 per cent; in food and tobacco they are 102.3 and 102.0 per cent; and in engineering and allied industries they are 133.9 and 125.8 per cent.
- Pay in the financial and insurance sector has increased as a proportion of the national average over this period, from 217.2 to 224.2 per cent.

### Regions

- Output within all three Northern regions is now a smaller component of overall economic output. Output in the North West is now 9.3 per cent of total GVA (2013), compared to 9.6 per cent before the financial crisis. For the North East, these figures are respectively 3.0 and 3.1, and for Yorkshire and Humberside they are 6.7 and 7.1.
- Output in London is now a larger component of overall economic output. It has grown to 22.1 per cent, from 21.0 per cent before the financial crisis. For the South East, it has grown to 14.9, from 14.3 per cent.
- This inequality is not accounted for by different population sizes within these regions. GVA per head is 83.9, 73.2 and 80.2 per cent of the overall UK GVA per head, respectively, in the North West, North East, and Yorkshire and Humberside (2013). These figures were higher before the financial crisis, that is, 85.0, 73.7 and 84.8 per cent.
- In contrast, GVA per head in London is 169.3 per cent of UK GVA per head, up from 167.5 per cent. In the South East, it has risen to 108.8 from 104.8 per cent.
- The North West has seen a slight increase in its employment rate to 71.7 per cent (Feb-Apr 2015, all aged 16-64), compared to 70.8 per cent before the financial crisis (Oct-Dec 2007). The North East and Yorkshire/Humberside have seen reductions in their employment rates, respectively, to 69.3 from 69.7 per cent, and to 71.6 from 71.8 per cent.

- London’s employment rate has increased quite significantly over this period, to 71.9 from 69.4 per cent, although the South East’s has fallen slightly, to 76.9 from 77.2 per cent.
- Average weekly pay (for full-time employees) in the North West and Yorkshire/Humberside has risen relative to the national average, respectively, to 90.6 per cent (Jan-Mar 2015) from 88.4 per cent (Oct-Dec 2007), and to 91.1 from 88.0 per cent. In the North East, it has fallen to 82.9 from 86.6 per cent.
- Average weekly pay has also fallen in London over this period, to 119.3 per cent of the UK average, from 125.5 per cent, although it has increased significantly in the South East, to 136.2 from 113.7 per cent.

### *Trade*

- The UK’s annual trade deficit is now £35.4 billion (2014). This represents a small improvement since the financial crisis, when the deficit was £40.7 billion (2007).

### *Investment and consumption*

- Investment (gross fixed capital formation) has fallen slightly as a proportion of UK gross domestic product (GDP), to 17.2 per cent (2014) from 18 per cent (2007).
- Household consumption has also fallen slightly as a proportion of GDP, to 61.3 per cent from 62.5.

### *Debt and savings*

- Households are now less indebted than before the financial crisis, with the debt-to-income ratio having fallen to 136 per cent (2014) from 169 per cent (2007). However, the Office for Budget Responsibility (OBR) forecasts that the ratio will have increased to more than 170 per cent by 2020.
- Households are now saving at a lower rate than before the financial crisis, with the saving rate having fallen to 6 per cent (2014) from 7 per cent (2007). However, the calculation of the saving rate has changed recently (mainly regarding the inclusion of pensions saving) and has fluctuated significantly during the past ten years. The OBR expects it to stabilise at around 7 per cent for the next five years.

## *Analysis*

- There is very little evidence that the UK economy has been rebalanced since 2010, on the terms publicly espoused by the Conservative Party in government.
- Finance appears to be a slightly smaller component of the UK economy, yet so too is the manufacturing sector. Pay growth in the finance sector continues to outstrip manufacturing.
- Economic activity within London and the South East is now a larger component of the UK economy, and output in the Northern regions now a smaller component.

- The UK’s trade deficit has improved since the financial crisis, but not by a significant margin. There has been no rebalancing from consumption to investment – both now make up a slightly smaller proportion of GDP.
- Households are now less indebted, but are also saving slightly less. However, it is clear that there has not been a significant transformation in households’ propensity to borrow or save since the financial crisis.
- The failure of rebalancing to date does not mean that it may not occur in the future. Moreover, we should not over-estimate the ability of national government to transform the domestic economy within a single five-year administration – although the coalition partners (and George Osborne in particular) had claimed that this was possible.
- The evidence contained in this Brief indicates an urgent need to assess whether UK economic policy is genuinely oriented towards economic rebalancing.
- As importantly, it suggests in fact that rebalancing may not offer a useful narrative for legitimising and enacting genuine economic change. Although it invokes the existence of significant economic problems, it implies that only minor alterations to existing practice are required of policy makers.

## Conclusion

The UK economy has not been rebalanced in any meaningful or significant sense. Although this may yet change, as evidence is updated and the economic recovery continues, it is probably fair to conclude that the policy agenda pursued by the Coalition government was not sufficiently oriented towards the rebalancing agenda. It is worth considering, however, the possibility that genuine economic change was not the most important motive behind the propagation of the discourse around rebalancing. The concept appears to offer a means by which critics of the UK’s pre-crisis economic model can be accommodated, without itself indicating or instituting any significant transformation within policy practice. It is not clear, therefore, that evidence of the failure (so far) of rebalancing will be fatal to the discourse. Nevertheless, many of the problems invoked by the Coalition government’s rebalancing agenda must be addressed if the recovery is to be sustained over the long term. The Conservative government now in office should take this opportunity to reconsider whether its economic policy priorities are the correct ones.

## Further reading

Berry, C. and Hay, C. (2014) ‘The Great British “Rebalancing” Act: The Construction and Implementation of an Economic Imperative for Exceptional Times’, *British Journal of Politics and International Relations*, forthcoming (DOI: 10.1111/1467-856X.12063).

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## Sources

- The coalition statement, plan for growth and George Osborne’s speeches are available on the UK government website ([www.gov.uk](http://www.gov.uk)).
- GVA by sector was calculated using data from the UK Economic Accounts, Q4 2014, available on the Office for National Statistics (ONS) website ([www.ons.gov.uk](http://www.ons.gov.uk)).
- Data on jobs by sector were taken from Workforce Jobs, and data on pay by sector were taken from the Monthly Wages and Salaries Survey; both are available on the ONS website.
- GVA by region was calculated from data available on the ONS website.
- Data on employment and pay by region were taken from the Labour Force Survey, available on the ONS website.
- Data on trade is available on the ONS website.
- The relative proportions of investment and consumption within GDP was calculated from GDP data, available on the ONS website.
- Debt-to-income ratios were calculated using data from the UK Economic Accounts, Q4 2014, available on the ONS website. Saving ratio data are available from the same source.
- OBR forecasts of the UK debt-to-income and saving ratios are available on the OBR website ([budgetresponsibility.org.uk](http://budgetresponsibility.org.uk)), in the Economic and Fiscal Outlook series and associated charts.



The  
University  
Of  
Sheffield.

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Research and writing by Craig Berry and Colin Hay

Sheffield Political Economy Research Institute  
Interdisciplinary Centre of the Social Sciences  
219 Portobello  
Sheffield S1 4DP

T: +44 (0)114 222 8346  
E: [speri@sheffield.ac.uk](mailto:speri@sheffield.ac.uk)