The Imbalanced Rebalancing of Regional Productivity Gaps in the UK

Tami Oren

Introduction

Is it possible to change the distribution of investment, wealth and incomes across regions and sectors, without transforming the given growth model (GM) or the growth coalition that controls its distributional outcomes? To approach this question, I go back to one of the less memorable parts of the Conservative-led government's response to the Great Recession of the 2010s, its ambition to 'rebalance' the economy across regions and sectors. The 'rebalancing' project constructed a causal relation between the current distribution of private investment, and the expansion of regional productivity gaps (HM Government 2010) – especially between inner London and the other parts of the country - which have been identified as a central cause behind the UK very slow recovery from the Global Financial Crisis (GFC) (HM Government 2010, 9).

This policy agenda was translated into a series of variations on the same industrial strategy theme that evolved along the 2010s,[1] the first of which is the City Deals policy that was launched in 2012. The policy offered incentive-based devolution deals with local governments (LG) of low-productivity city-regions. Each devolution deal incorporated Enterprise Zones (EZs)[2] that privileged private investment in growth potential sectors that was about to boost job creation and generate productivity growth.

Concurrently, post GFC macroeconomic policy worked to restore the macro foundations that supported the operation of the UK's rent-led GM (Christophers 2020), pushed the redistribution of private investment to other directions. Harsh fiscal austerity operated by conservative governments throughout the 2010s meant that the public expenditure for rebalancing will be strict. The heavy lifting was transferred to austerity hit LGs and private investors. The expansionary monetary policy - used by the Bank of England (BoE) throughout that decade– encouraged investment in financial, property and other rent-led markets and drove investors away from patient capital investment, especially in decaying regions.

Throughout the 2010s, this policy failed to decrease regional productivity gaps. Nevertheless, politicians and policymakers thought the city deals policy was successful enough to be integrated in successive versions of the 'rebalancing' industrial policy, including the Johnson's government 'Levelling Up' agenda of 2020 (HM Government 2020). To understand why, I follow the interaction between the UK GM, its underpinning macroeconomic ideas and the city deal policy and ask how this policy affected the distributional patterns - in terms of regional investment, income and wealth- routinely

[1] This policy was followed by the then Chancellor James Osborne's Northern Powerhouse initiative (2014), Theresa May's Industrial strategy (2017), and more recently the Levelling Up policy plan, launched in 2020 by the Johnson government.

[2] The establishment of EZs was stated in Budget 2011 (HM Treasury 2011) and launched, together with the city deals policy, in 2012 (HM Government 2012).

produced by the UK growth model. I use this question to better understand government ability, or inability, to mitigate the regional distributional effects of its GM while also defending its macroeconomic foundations.

To do that I employ the growth model theory as has been developed by Baccaro, Blyth and Pontusson (2022). More specifically, I focus on the relationship these authors structure between the distributional outcomes of a given GM and the dominant growth coalition that secures its continuity. This literature provides useful tools to interrogate the distributional outcomes of GMs, but since it does not deal directly with the relationships between macroeconomic ideas, policy ideas and re-distributional change I combine it with a constructivist approach that makes these relationships its subject matter (Oren and Mandelkern 2024). Following Christophers (2020), I understand the UK's growth model not just as a finance-led but as a rent-led GM being founded on different rent extracting industries, such as real estate, digital platforms, creative industries, professional services and ITC.

Building on this literature, I suggest that the interaction between the city deals policy, the fiscal and monetary framework of the UK and the rent-led GM pushed the diffusion of rent-led investment to areas and regions that were not profitable for rentiers before and generated growing dependency of devolved LGs on the interests of rentiers. I also suggest that since the policy did nothing to deal with the macroeconomic sources of rent-led expansion, it ended up increasing regional productivity gaps.

To test my suggestions, I employ a deductive hypothesis testing and use it to analyse the City Deals policy throughout the 2010s. Since data covering the distributional outcomes of city deals on a country level is not available - due to the lack of institutionalised monitoring and evaluation mechanisms (Committee of Public Accounts (CPA) 2016, 5-6) – I compare the two 'flagships' city deals of Manchester and Birmingham. Most of the collected data is regional and compiled to widen our understanding of the policy outcomes. I follow events up to the year of 2019 to isolate the effects of the policy from those of the pandemic of 2019-2022 and the energy crisis caused by the Ukrainian war.

I conclude that by building the trajectories for the diffusion of rent-led investment into peripheral regions, the city deals policy increased the weight of the incentives, opportunities and distributive tendencies produced by the rent-led GM, which routinely downsizes the incentives for productivity-oriented investment that might generate regional productivity growth. Being built on the weak foundations of austerity hit LGs and rent-centred private investors, the policy legitimised government retrenchment from the very peripheral regions the productivity of which it sought to boost. While these findings might be too case specific and could not be generalized, they do provide fruitful ground for further research.

Theory

Constructivist perspective of redistribution

The research question emerges from Bacarro, Blyth and Pontussen's (2022) concept of growth models (GMs) according to which the interests and priorities of what the authors

term as a dominant growth coalition controls the distribution of investment, wealth and power across class, sectors and regions.[3] It means that any distributional change largely depends on a previous change of the growth coalition. Some scholars take this conceptualisation few steps forward and show that partial change of the growth coalition, for example the strengthening of trade unions, might generate a gradual distributional change and insert complexity into a given growth model (Bonddy and Maggor 2023). Yet, the question at hand deals with a different story. It directs us to explore what happens when a dominant and relatively stable growth coalition seeks to change, or mitigate, the regional distributive outcomes of its GM, while at the same time also incentivising its routine operation.

To do that I further problematizes the relationship between growth coalitions and distribution and employ a two-fold constructivist concept of GMs. First, I assume that any GM is structured through the lens of consensual macroeconomic ideas, from which the range of problems that demand intervention, and a legitimate scope of policy solutions, are being derived (Oren and Mandelkern 2024). At times of uncertainty actors tend to cling to the certainty provided to them by consensual and institutionalised macroeconomic ideas (Mandelkern and Oren 2022) and use them as a framework through which episodes of economic instability are being understood and worked upon. Second, as Kalecki (1947) and Blyth and Matthijs (2017) showed, any macroeconomic framework carries its own institutionalised "bug" which constitutes 'a crisis in the making'. Times of instability and crises are occasions where the outcomes of the 'bugs' embedded in the GM are being exposed. But as long as the macroeconomic ideas that carry these bugs remain consensual, they cannot be understood as the origin of instability. They keep on guiding the distribution of wealth and power down the pipeline of the GM. It means that consensual and institutionalized macroeconomic ideas carry specific institutionalised distributive problems.

A change of distributional outcomes might occur, therefore, by the undermining of the consensus around the macroeconomic ideas that underpin the GM or, at least temporarily, by the emergence of a different understanding of the priority structure of macroeconomic goals (Oren and Mandelkern 2024). Taken together, this conceptualization of GMs allows me to analyse the relationship between *a)* the macroeconomic ideas that guide the growth coalition, *b)* the distribution of income, power and wealth that the GM generates, and *c)* the policy ideas being used to mitigate these distributional outcomes.

Following Christopher (2020), I replace the prevailing definition of UK GM as a 'finance-led' with a 'rent-led GM'. Both definitions emphasize the bottom-up distribution of wealth and income across class, regions and sectors as a central feature of the GM (Christophers 220; Oren and Blyth 2019). But the 'rent-led model' emphasizes the continuous expansion of monopolised rent-extracting profits that goes well beyond finance that invade not only housing markets. It also spreads to other sectors which are intellectual property rights (IPR) rich, such as ICT, business services, pharmaceuticals and new media sectors (Christophers

[3] It includes firms in leading sectors, policymakers and politicians, and professional advisors, organisations and interest groups.

2023), up to the point where 'Rentierism' becomes the central engine of UK's demand and growth.[4]

Policymakers' efforts to restabilize the economy in the post GFC era combined fiscal austerity with BoE's loose monetary policy and made rent-led investments ever more profitable than patient capital investment (Christophers 2023; 2020, 253;379). This macroeconomic policy largely contradicted the logic behind the rebalancing agenda. But as Christophers (2023) acknowledged, the theory of 'rentier capitalism' does not discuss directly rentiers' effects on regional productivity gaps. Consequently, it cannot explain the course and outcomes of the 'rebalancing' city deal policy. Employing the above constructivist approach to GMs my aim is to bridge this gap. Before moving on, a closer look on the concept of 'incentives' is needed.

A constructivist idea of 'incentives'

Incentives are a common policy tool that governments use whenever they wish to redirect actors' economic choices to some policy goal (HM Government 2010). The conventional assumption is that utilizing government backed incentives is the rational choice of utility maximizing actors. Consequentially, governments can use incentives to make actors' economic choices predictable and by so doing reshape the economic context whenever the desired economic goals fail to materialize.

From a constructivist perspective, this line of thinking ignores the context within which incentives are being operationalised (Dekker et.al 2020). Since incentives derive their meaning from the consensual macroeconomic framework of a given GM, the incentives that policymakers employ carry the meanings given by these ideas to *a)* actors' economic motivations and their effects on economic aggregates; *b)* the causal relations underpinning economic outcomes; and *c)* what should be considered as a problem that demands the use of incentives. At the same time, the actors whom their investment preferences the policy strives to alter, are routinely guided by the same ideas and are already deeply invested in, and incentivised by, the opportunities, preferences and expectations produced by this GM (Inch et.al 2020, 176; Stockhammer and Onaran 2022), as well as by the limitations and expectations that emerge out of its related political opportunity structure (Meyer 1999).

In our case, the macroeconomic framework of post GFC UK, combined of fiscal austerity and monetary expansionism, set the lens through which policymakers think about incentives. It means that the policy incentives they use will not involve increased government expenditures but will turn to private investment, which is routinely operate through the pulls and push of the GM. In the case of the city deals policy, the effort to redistribute private investments to low productivity regions is deeply intertwined with the interests of rentiers. Consequently, it largely depends on the extent to which the policy can make investment in these regions worth their while. It means that, to a large extent, the policy ambition to

[4] All top 30 corporations listed in the London Stock Exchange are 'rentiers. As Christophers (2023) sums it, these are "the ones that get ahead".

narrow down regional productivity gaps should get along with rent-extracting interests that largely produced these gaps in the first place (Christophers 2020).

Rent-led GM and productivity growth

The dominance of IPR rich sectors with substantial power over rent carry low levels of real productivity growth but high levels of nominal productivity growth. As Hearne and Lewis (2024) show, this type of nominal productivity growth negatively effects real productivity growth in different ways. First, rent-led high wage sectors, which hardly employ 10% of the workforce, harm real productivity growth when they limit redistribution through wages. Second, high incomes earners typically have low consumption rates and high savings levels (Schwartz 2020). Third, 90% of the workers are being left out of this rent-led distribution with reduced consumption levels (Schwartz 2020, 95).

To add, high income workers tend to push house price inflation and consequently increase the costs of local services for all the others (Hearne and Lewis 2024). Rising costs depresses the profits of other sectors - including those with high potential for real productivity growth such as agriculture and manufactured products – living them with declining capacity to compensate their workers. It follows that wherever profits and incomes of rent-extracting sectors significantly increase, sectors with high real-productivity potential might lose volume and decline. As Christophers shows (2020), the UK features as the 'poster boy' of these trends.

Taken together, it might be the case that any policy that incentivises the expansion of sectors with high power over rent in low productivity regions depresses real wages and consumption power of most of the workforce and further decreases the potential for regional productivity growth. As I show in the following sections, the combination between macroeconomic policy, rent-led GM and the city deals policy did exactly that.

Methodology

The lack of monitoring bodies covering the distributional results of city deals policy on a country level (Committee of Public Accounts (CPA) 2016, 5-6) directed me to design comparative research of two city regions in the UK that belong to the first wave of City Deals, Greater Manchester (followed by the 2014 Greater Manchester Combined Authority (GMCA) devolution deal) and Birmingham (followed by the 2015 West Midland Combined Authority (WMCA) devolution).

The selection of cases is not arbitrary. Both belong to the 'core cities' bundle in England. Manchester is the 2nd largest city in the UK and Birmingham the 3rd. They are both de-industrialised cities with relatively high concentration of deprived communities. In both cases, EZs were built around pre-existing industrial clusters of rent-extracting sectors. Also, both deal with high percentage of under skilled workers. Nevertheless, they are both casted as THE 'flagship' examples for successful city deals (REFERENCE 2018).

Both Birmingham's and Manchester's city councils provide rich statistics that document the progression and consequences of the policy across time and constitute the core base of my analysis. Regional data collected by the ONS and periodical reports issued by think tanks

complement other parts of the picture. I use these tools to analyse the counterproductive outcomes of these apparently 'most successful' cases and reveal the causal mechanisms behind the workings of city deals policy in them both I follow data collected for the years 2012-2019 that covers productivity growth and the factors that shaped its dimensions. It is focused on two Dimensions. First, I collect data showing demographic change generated by the expansion of rent-led sectors. This dimension is calculated by compiling data showing changes in skills and qualification levels; stratification of occupations and employment; employment related benefits claims in specific areas. The effects of regeneration projects and increasing in regional divides is compiled by combining data showing house price inflation; affordable housing; and deprivation; The collected data is carefully designed to give a more generalisable understanding of the simultaneous effort to secure the workings of rent-led growth and mitigate its distributional effects.

The data collected for the comparative analysis is used to test two deductive hypotheses.

a) *The city deal policy served as a transmission mechanism for rent-led expansion by making profitable peripheral regions that were unattractive for rentiers before.*
b) *the policy failed to narrow regional productivity gaps. Instead, it increased LGs' dependency on rent-led sectors that tend to decrease regional productivity growth.*

To consider whether each of these cases "passes" the hypothesis test I carefully follow, using the data collected, the penetration of rent-led investments to low productivity areas. ***Table 1*** summarizes the criteria for each hypothesis testing.

Table 1

Hypothesis A	**Tests**
Rent-led investment in “growth potential sectors”:	Influx of high wage class to city centre neighbourhoods. skill levels.
effects on rental/owners occupied assets market:	House price inflation in regenerated neighbourhoods:
city centre and bordering neighbourhoods as regions of exception	demographic change: employment related benefits in regenerated areas
Exclusionary gentrification:	Pockets of deprivation
Hypothesis B	**Tests**
LG dependency on Rentiers:	low investment in skills: Employment data Financialization of future tax revenues to attract investment Costs and profits of regeneration: Lack of transparency around the transfer of public land to private rentiers. Low levels of affordable housing supply
Effects of rent led investment on regional productivity growth	Failure to narrow down regional productivity gaps: Growing in-regional divides: income distribution across neighbourhoods Risk of bankruptcy

City Deals

The city deals policy combines a set of devolution agreements between central government and LGs. By the time the policy had been launch, fiscal austerity already hit deprived LGs the hardest with 40%-60% cuts to their budgets. Their declining ability to collect revenues and serve social needs (Gray and Barford 2018, 550-553; 558; Fetzer 2019), let alone boost regional productivity growth, was aggravated by cuts of between 15%-32% of stable civil service jobs, which pushed workers to lower paid jobs and decreased regional productivity [IFS DATA/CHART] (Sensier 2021). Yet, the devolution of powers to LGs ignored all that.

Central government's part of the deal included several types of funding – loans, guarantees and new investment- which had been conditioned on its fiscal goals and the pace of the austerity needed to achieve them (HM Government 2012).[5] To add, the supply side macroeconomic framework of the UK is hostile to tax increases and public investment (Bacarro, Blyth and Pontuson 2022), especially at times of recession. While critics show that cutting "public investment during downturns weakens long-term growth" (Resolution Foundation 2025, 12), this macroeconomic framework remained the priority of the growth coalition, who saw micro-foundational policy solutions that use the 'right' private sector's incentives as the only way to mitigate undesired cross-regional distributional outcomes (HM Government City Deals 2012).

The city deals agreements involved a competitive bidding process which prioritised cost-effective development planning, attractive enough for private investors (HM Government 2012). To 'win' this race, finance-starved LGs had to commit themselves to development plans which they are incapable to deliver without increasing the level of their dependency on private actors' interests (O'Brien and Pike 2015, 21-22; Gray and Barford 2018, 558).[6] Bluntly, the policy sought to replace the dependency of LGs on public expenditure with market-based private investment (HM Government 2012; Industrial Strategy Council 2020, 20).

Each city deal is 'tailored made' to fit local needs, yet all of them oblige LGs to invest in *a)* infrastructure projects, *b)* industrial sectors with high growth potential, and *c)* the regeneration of decaying city centre neighbourhood. In the terms of Gabor (2020), the policy risked LGs while derisking both central government and private investors, in several ways.

A new governmental Housing Investment Fund, established as part of the city deal policy to get the regeneration of decaying areas going, provided ten-year loans to private developers. All risks attached to these loans had been transferred to LGs that 'underwrote' private

[5] These deals were launched in two waves, with overall government investment of £6.6bn (UK parliament/Matthew Ward 2020 7-13).

[6] A report of the Committee for Public Affairs (CPA) (2016, 8) shows that at least some city deals have been signed without clear indication that LGs have the resources needed to secure the effectiveness of the devolved powers they get. Their biddings have been judged only through the lens of their competitiveness (Ward, UK Parliament 2020).

investment. Two innovative financial tools- Tax Incremental Finance (TIF) and an 'Earn Back' mechanism- allowed LGs to borrow, against their forecasted future business tax revenues, to finance investment in infrastructure and regeneration projects (HM Government 2011, 1). These financial instruments transferred political/electoral risk from central government, which up to this point redistributed, through the Revenue Support Grants, business tax revenues from affluent to deprived regions (Baily 2017, 10-11), and subjected LGs future social needs to present investment (Dagdeviren 89, 2024).

The policy did not strive to 'rebalance' in-regional socio-economic gaps but to narrow productivity gaps between regions. The marking of the effort to increase skill levels of low-skilled workers as one of its goals did not target employment problems but productivity growth (HM Government 2011, city deals). On top of that, city deals were founded on the 'trickle down' model of economic growth, according to which benefitting businesses will lead to productivity growth that 'trickles down' to all other social groups through new jobs creation, un-inflationary real wage growth, and increased demand (Haldane 2019; Peters and Nagel 2020; Holgersen and Beaten 2016). Ample empirical evidence to the opposite[7] are recurrently attributed either to the misconduct of individuals, or to 'external' factors (Quiggin 2012). In the case of the city deals, the 'trickle down' model is carried by regional Enterprise Zones (EZs) that are expected to serve as hubs for productivity growth.[8] These Zones are structured around pre-existing 'growth potential' industrial clusters, and benefit businesses on two levels. First, they provide tax holidays and relaxed regulations, as well as grants, loans and guarantees that derisk their investment. Second, they supply the advantages of already established infrastructures, facilities, talent pools and services for in-coming firms that belong to the same industries. Concurrently, the 'growth potential' sectors around which EZs were built in different regions, Manchester and Birmingham included, are IPRs rich sectors with substantial 'power over rent' that, as some scholars show (Christophers 2020; Schwartz 2018), do not tend to contribute to 'trickle down' redistribution and real productivity growth. Put differently, the mutually enforcing fiscal toolbox being used by the policy and the path of rent-led growth, tend to reproduce the latter's upwards distributional effects, which challenged the former's main goals.

The analysis of the case studies below follows the effects of the city deals policy on regional productivity growth in three dimensions: the effects of growth industries in local EZs, b) the effects of regeneration projects, and c) the effects of its social outcomes on its political economic goals.

The case of Greater Manchester

In 2014, Manchester City Council (MCC) formed, together with the Abu-Dhabi United Group (ADUG),[9] a new company named "Manchester Life". This partnership has been formed to

[7] As Blyth (2013) shows, solid empirical evidence points at positive relationships between real wage growth, increased demand and productivity growth.

[8] The 'first wave' of city deals, signed in 2012, included the creation of 24 EZs (REFERENCE).

[9] This conglomerate already had deep roots in Manchester as the owners of Manchester City FC and other sport-led developments, among them a sport college and surrounding facilities (Gillespie and Silver 2020).

carry out regeneration projects throughout the city of Manchester. The MCC purchased 16 acres of land for £3.5m an acre but sold it to 'Manchester Life' for only £389,000 per acre (a total of £6,120,000). According to modest estimations, about 1996 apartments that yielded the partnership £80m profits, have been built on this previously public land (Gillespie and Silver 2020, 10). Most of the apartments were high-end, unaffordable for most residents, and were built for the private rental market. Goulding, Leaver and Jersey (2022) of the Centre for Cities think tank, who investigated this regeneration deal, found there was no transparency around the arrangements between Manchester Life's partners, and no traces of income received on the proceeds in MCC's balance sheets. The "transfer of public wealth to private hands" was completed when the profits were transferred by ADUG to an offshore company named "Loom Holdings" based in Jersey (Gillespie and Silver 2020, 8). To understand how this troubling episode did happen, we need to go back to 2012, to Manchester's city deal agreement.

Belonging to the first wave of city deals,[10] Manchester was marketed as the 'flagship' of this policy success (Brokenshire 2018). Yet, the 'Deal' was largely disconnected from the context of the £229m budget cuts it went through in 2011-2014 and its following hurdles in collecting tax revenues (MCC 2012-2014-5Budget Reports). Of all core English cities, Manchester scored the 6th most deprived with the 2nd highest concentration of Wards in the category of 'most deprived 10%', with none of them in "the least deprived" decile.

The response of MCC to the Localism Act Review (2011, Ev. W113-118)[11] included the threefold commitment to *a)* reduce its dependency on central government budgets, *b)* put "business in the driving seat" and prioritise the "fastest growing" and most productive sectors over others and *c)* balance demand side with supply side interventions to create both economic opportunities and the means to utilize them, accordingly. There was no indication in the devolution agreement of Manchester's social-economic conditions.

For example, while 23% of its residents have no job qualifications and 11% of its workforce have only basic qualification, Manchester committed to "ensure that local residents have the opportunity [and the skills] to compete for jobs opportunities". Central government was about to match local funding only if it is risk free and "linked to good performance" (HM Treasury 2014, 1). Also, the city deal included the control of a £300m Housing Investment Fund loans for private investors, designated for regeneration projects. The agreement was explicitly conditioned on the consent of the local government to derisk the government in three ways. First, to demonstrate that "its balance sheet can stand behind…agreed repayment schedule" (HM Treasury 2014, November 3. 2; 6). Second, that can guarantee "80% recovery rate on principal and interest rate earned" on the loans (HM Treasury 2014, 3

[10] In 2014, a wider devolution agreement ensembled xxx local authorities into the Greater Manchester Combined Authority (GMCA) (New economic foundation 2017, 2) with the city of Manchester as its driving engine (REFERENCE).

[11] conducted by the Regeneration, Communities and Local Government Committee (RCLG) in 2011.

November 6).[12] And third, that it takes responsibility for all risks involved in using the Fund's money to purchase land for regeneration projects (Greater Manchester City Deal 2011, 21).

To further incentivise business investment, the central government financed between 2012-2015 a newly established Business Growth Hub that gave business the access to a £4.4m pool of loans and to advice services. Since 2015, the LG had "to self-fund the hub" by using the new financial powers granted by the 'Deal', the "earn back mechanism" and the Tax Incremental Finance (TIF) (HM Government 2011, 8-9). All the forecasted "additional tax revenues" should be used independently as investment "in further infrastructure projects" (HM Government 2011, 8-9), leaving behind all other local needs. Roughly put, Manchester's deal was an act of derisking government investment, and of increasing dependency on private investors.

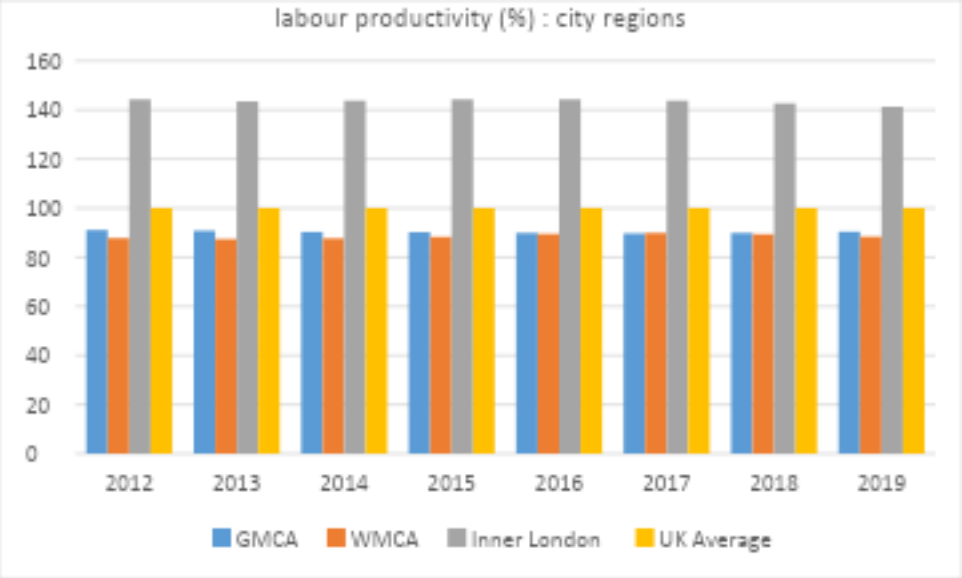
EZS, local labour market and productivity growth

The two EZs included in Manchester's City Deal were built around the pre-existing industrial clusters, the most silent of which were biotechnology; pharmaceuticals and medical tech; advanced manufacturing; and engineering and aerospace industry (EZs, Parliament UK)[13]. Projected business tax rate growth has been ring-fenced for future infrastructure investment that would attract more firms that belong to these sectors, create more 'good' jobs and increase productivity growth,[14] that then will 'trickle down' through un-inflationary wage growth (MCC Report for Resolution 2016, Jan 6, p.1). These projections were hardly materialized.

Chart 1 compiles comparative data showing that productivity gaps between Greater Manchester, the UK average and inner London areas increased throughout the 2010s. Average productivity growth kept around 10% below UK average, with no influence of EZs on these gaps.

[12] Interest gains are expected to be between 4-7%, with IRR of 8-10% (GMCA, City Deal, 2011, 22).
[13] Manchester's deal established two EZs: the city centre Oxford Corridor, and Manchester Airport City.
[14] following consultation and approval of EZs boards and GM's Local Enterprise Partnership (LEP) (Manchester City Council Report for Resolution 2016, Jan 6, p.1). LEPs combine…

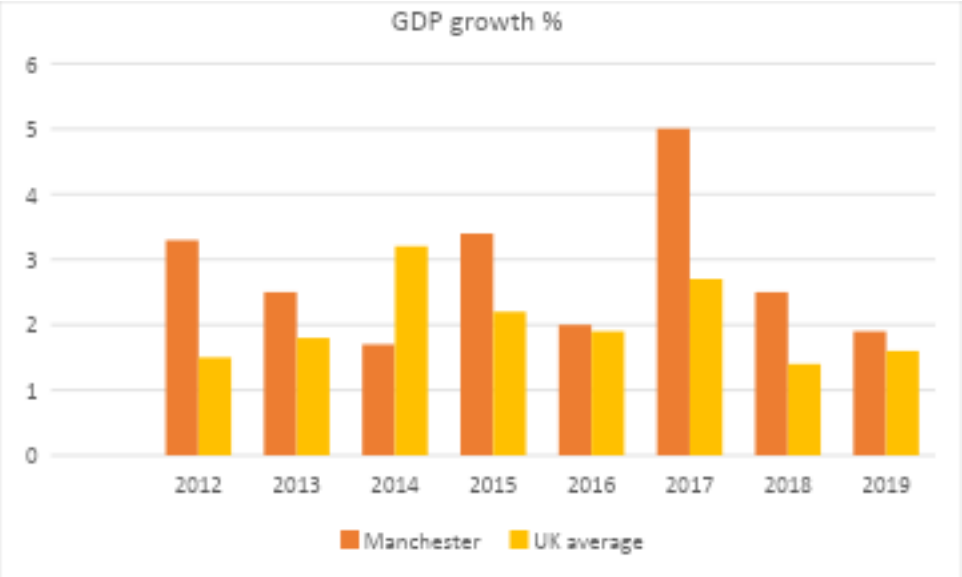
Chart 1



Source: ONS (2022). Subregional productivity: Labour productivity indices by city regions.

Concurrently, GDP growth in the city of Manchester, where its EZs are placed, was ahead of the UK average throughout this period (see *Chart 2*).

Chart 2



Source: Manchester city council

GVA data by sectors collected in 2016 by Swinney and Sivaev from the Centre for Cities (2016, 72-73) show that productivity growth resulted from the presence of high skilled and young professionals in high growth sectors.

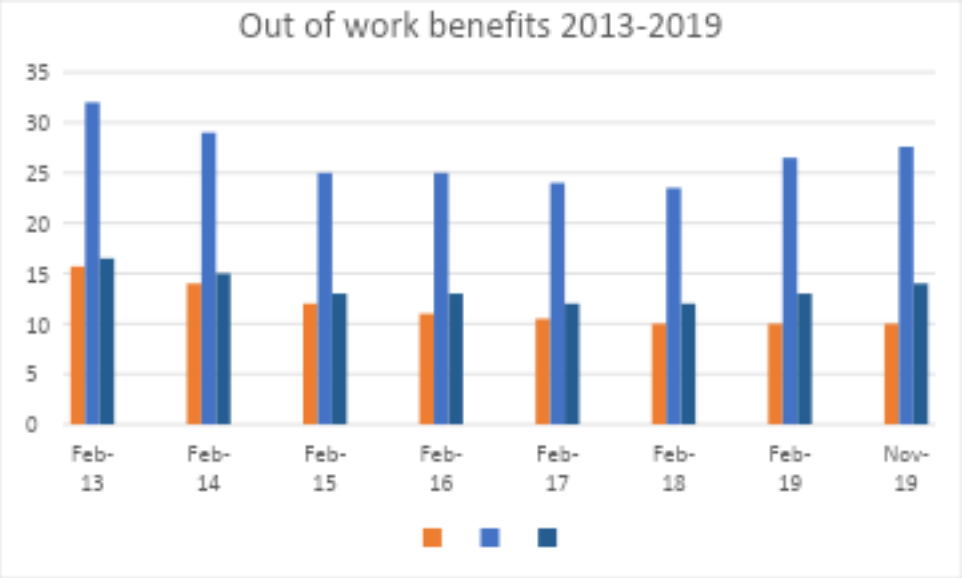
MCC report from 2019 (state of the city, 72-73) showed that bout 22% of Manchester's workforce, but only 17% of its residents, are employed in high-skilled jobs. During the same period, shortage in vacancies reported by companies increased from 14% in 2015 to 23% in 2018. In 2019 Manchester's job market offered 85000 good quality well-paid open vacancies, about 1.5 jobs per each 'job hunting' resident. Since local workforce lacked the capacity to gain from job creation in fast growing sector, the possibility that the productivity growth produced in EZs will operate trickle down mechanisms has been significantly declined. Instead, it "trickles out" and benefits high skilled workers, part of which are in-commuting, while squeezing incomes for all the others. Demographic change and in-commuting workers became part of an evolving strategy of regional growth that deepens the gap between the 'winners' and 'losers' of the City Deal's distributive effects (Bua, Laurence and Vardakoulias 2017, 11).

As already mentioned, the rent led sectors populating Manchester's EZs generate nominal productivity growth that depresses real incomes for everybody else (Hearne and Lewis ,2024; Schwartz 2022). Regardless of Manchester's commitment in its city deal to advance its residents' job qualifications, most residents still worked in low-paid low-productivity sectors, part of which under insecure zero-hour contracts or as 'self-employed'. (Swinney and Sivaev 2016). Concurrently, the vicious circle of low-qualification low-wage low tax revenues collected from residents, continually decreases the MCC's ability to invest in adults' education and skills.[15]

Against this background of low investment in skills, MCC State of the City Report from 2019 (17) found that during the 2010s, the proportion of residents with no qualifications in regenerated neighbourhoods went down from 21% to 10%. These numbers point to a demographic change that was also reflected in ONS 2021 census, showing that this change is particularly substantial in two regenerated Wards, Piccadilly and Ancoats. These Wards, which have been populated with neighbourhoods that belong to the category of the 10% most deprived in England, currently scores relatively low in deprivation scales (Census 2021; data, percentage of LSOAs) with lower unemployment rate and lower count of out of job-related benefit claims, compared to census 2011. In Picaddilly, claimants rate decreased from 6.7% in 2011 to 1.3% in 2019. *Chart 3*, comparing Ancoats claimants' level with those of its bordering ward of Milles Platting and Manchester's average throughout the 2010s demonstrates the link between regeneration and demographic change. Ancoats out of work benefits claimants decreased throughout this decade by 33%, while Manchester average claimants level decreased by 14.5%. Milles Platting claimants rate decreased by 13.4% and remained high at 27.6%.

[15] As noticed above, government commitment to match investment in skills is conditioned on outcomes (City Deal 2012).Employers' investment in skills decreased by almost 30% since 2011-2020. Public investment has fallen by about the same amount during these years (Tahir (IFS) 2023).

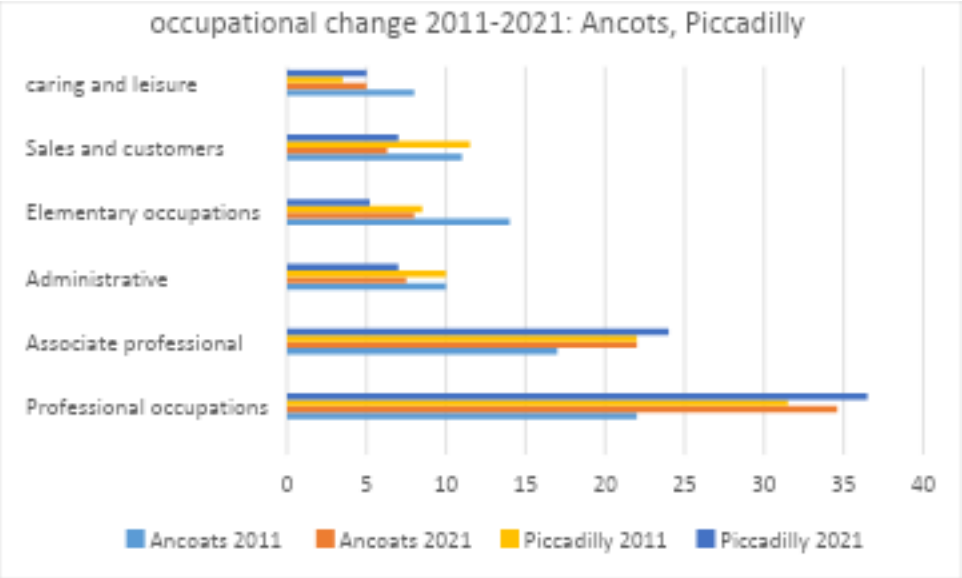
Chart 3



Source: ONS census 2011; census 2021.

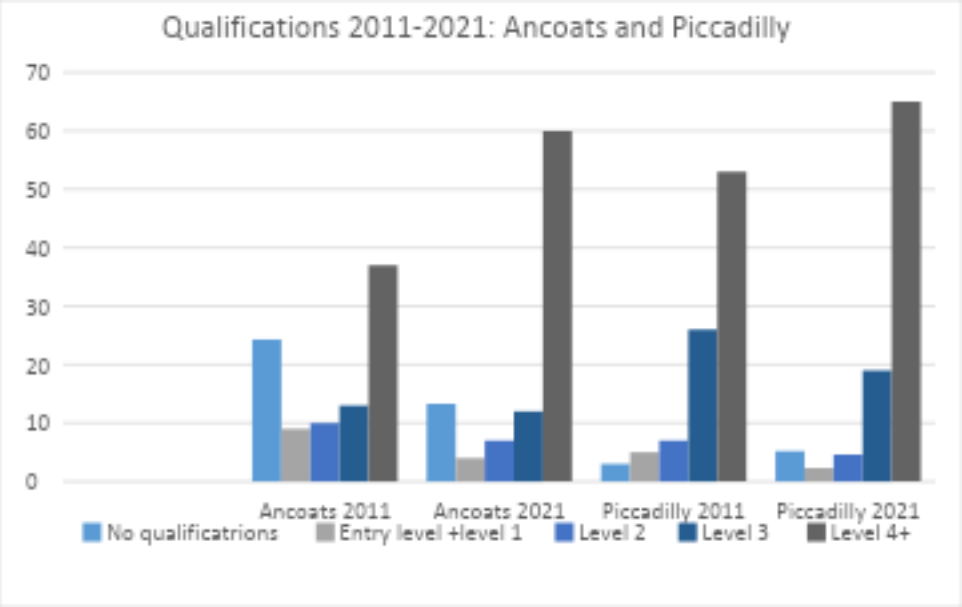
Concurrently, qualification levels and employment patterns in regenerated Wards substantially changed between 2011-2021 (ONS Census 2011; Census 2021) (see *Chart 4* and *Cart 5*).

Chart 4



Nomis, Occupation by ward 2011; 2021

Chart 5



Source: ONS census 2011; 2021

These figures demonstrate how benefitting the IPR rich sectors turbo charge the distributive outcomes of the rent-led GM and distances away the workings of 'trickling down' productivity growth. The next section analyses the feedback loop between these distributive effects and the regeneration wave that swept Manchester's city centre neighbourhoods, and the evolving dependency of Greater Manchester in the interests of rentiers.

Rent-Led Regeneration

In the City Deals framework, regeneration projects had two goals. First, to improve productivity growth by turning decaying city centre areas into attracting business centres and neighbourhoods. Second, to improve locals' access to housing by mandating all private developers to sell 20% of new-built units at affordable price (HM Treasury and Greater Manchester 2014). As the owner of the land[16] and buildings destined to regeneration, the MCC apparently gained substantial bargaining power vis a vis any private developer bidding for a regeneration project. But austerity cuts, which made it also revenues impoverished, increased Manchester's dependency on rent-led private interests (New economic foundation 2017, 5; 10).

High-income earners attracted to Manchester's job market turned regeneration projects in this previously unattractive area into a profitable opportunity for rent-led investors. Manchester fiscal and financial position diverted these projects away from their social goals and made them even more profitable for them. Social housing and other residential

[16] In some cases, the LG bought private property in neighborhoods destined to regeneration (2016 Centre for Cities).

properties of low-income families in city centre neighbourhoods have been replaced with new office and commercial buildings built for growth potential industries, and up-market apartments built for their high-income workers who occupy the private rental market.

For example, the regeneration projects led by 'Manchester life', the partnership between MCC and the Abu-Dhabi United Group (ADUG) discussed above, is part of the 28 regeneration projects that led a demographic change in Ancoats, one of its most deprived Wards (Manchester City Council 2020).[17] Other examples that turned the city deal's promised 'trickle down' into 'trickling up' distribution include the Piccadilly Ward regeneration boom (Piccadilly SRF 2018, MCC). In one project, built by Store Street Developments, the MCC leased public land for 960 years in return for only £1. In another project, that yielded an estimated £14bn, public land was leased for 250 years for the same price of £1 to the Hilton corporation. None of them included affordable or social housing, only private rentals and some high-end owner-occupied apartments (Gillespie and Silver 2020, 12; Berry and MacFarlane 2022, 41).

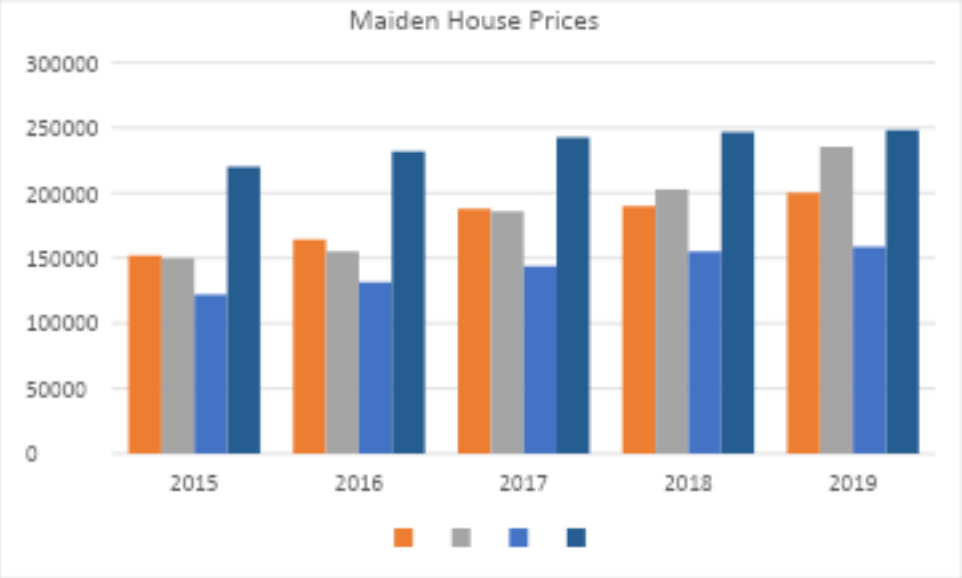
These projects sent house-prices up and pushed the boundaries of city centre to its bordering areas, which also became the target of rent-extracting investments (see *Chart 6*). This rent-led expansion further widened the circle of house price inflation and demographic change in previously deprived neighbourhoods (Centre for Cities 2019), and 'locked out' locals from "the proceeds of growth" (Bua and Laurence 2017, 2; 11). In most cases, none of the promised affordable units have been built, although 'affordable' has been defined as a monthly rent of £750 in a city with average yearly wage of £27000.[18]

Paradoxically, the city deal policy that was meant to narrow down the UK dependency on 'rentier capitalism' made LGs dependent on their interests. It turned Manchester into a profitable new frontier for rent-extracting sectors, most saliently for real-estate investment. Consequently, Manchester was transformed "into a high-rise enclave of luxury apartments" (Silver and Gillespie 2021), and a rentiers' paradise.

[17] This Ward is still home for some of the 10% most deprived neighbourhoods in England.

[18] Pidd 2018, Guardian, Housing Crisis: 15000 new Manchester's homes and not a single one 'affordable';

Chart 6



Source: ONS (2023). Median House Prices by Wards: HPSSA Dataset 37.

Distributional effects: In-regional divides.

Manchester's city deal ended up increasing, on top of regional inequalities, in-regional divides (Berry and MacFarlane 2022, 41). The ONS 2021 Census Deprivation scale reveals that 40.9% of Ancoats households still suffer at least one dimension of deprivation. In Piccadilly, the rate of "not deprived" jumped from 36.6% in 2011 to 65.2% in 2021, 3rd biggest improvement in England, . Together, this is the face of an apparently successful city deal.

Data covering 2019 *skills deprivation* across Manchester's wards showed that most of Piccadilly's neighbourhoods, accept of poverty 'pockets' in the margins, rates between 4th and 1st least deprived 10%. Ancoats is a mirror image of Piccadilly. Most neighbourhoods bordering Piccadilly are rated 4th least deprived 10% while most of the others are rated 1st and 2nd most deprived 10%. Measuring *employment deprivation* shows that most of Piccadilly neighbourhoods are rated 1st least deprived 10%. In Ancoats, only regenerated neighbourhoods bordering Piccadilly are rated between 4th and 1st least deprived (MCC 2109). Increasing inequality and deprivation levels (see *Chart 7)* and declining volume of affordable housing, went hand in hand with rent-led growth. The fact that 43% of its children live in households that belong to the 10% most deprived and suffers income poverty (MCC Children in Manchester, Allerton and Bullen 2021) exemplifies this picture.

Residents in regenerated areas experience exclusionary displacement which is not necessarily pushes them out of the neighbourhood but rather obstruct them from sharing the prosperity of the renewed neighbourhood and new job opportunities (Farnsham 2020). Recent data from Manchester's Business Board website (24 August 2023) sums a

long-standing failure in advancing the local workforce, with growing in-work poverty becoming one of Manchester's major problems (2021, MCC children in Manchester).

An OECD Report published in 2022 shows that with all its high productivity industries, Manchester's productivity growth remains below national average due to low supply and utilization of skills. Employment is polarized between high-income professional jobs and low-paid jobs. ONS data that correlates postcode and income, taken in 2023, illuminates the continuation of this trend and summarizes well the outcomes of Manchester's city deal. Specific postcodes, inside Ancoats and Piccadilly, range between 36,700- 41,000 of yearly income, while other postcodes in these Wards range between 19870 and 22460. Bordering city centre areas[19] show even lower annual income that range between 16,330- 19,576 (ONS 2023).

Perhaps not surprisingly, trickle down mechanisms did not work. The devolution of powers to the LG was intertwined with the forced alignment of local interests with central government priorities. The 'utility maximizing' LG was the function of the social, political and economic context of fiscal austerity and monetary expansion. The local government lost; rent-extracting investors won.

The case of Birmingham and the West Midland Combined Authority

On 28 November 2017, a Guardian headline revealed that a "Birmingham's area named poorest in the UK has fastest house price rise"- of around 17%- due to an influx "of young professionals and investors". A year earlier, End Child Poverty campaign group found that the same neighbourhood's "levels of child poverty [is] the worst" in the UK (Collins 2017). The referred neighbourhood is part of Birmingham's city centre Ward of Ladywood, to which I go back later. To understand how these two sets of data go together, we should investigate the evolution of Birmingham's city deal throughout the 2010s: I start with the composition and labour market effects of its EZs,[20] before I turn, in the next section, to Birmingham's regeneration and its social consequences.

To begin with, Birmingham ranks 3rd of core English cities in the category of general deprivation (BCC 2019, December) [21]. Its 2012 city deal agreement took place against the background of budget cuts of 55% that forced the city to implement "significant savings" in local services (Birmingham City Council (BCC) 2020).[22] Yet, to win a city deal Birmingham

[19] Cheetham, Hulme, Ardwick (ONS 2023).

[20] The EZs are combined from 39 sites within Birmingham city centre and occupy existing as well as regenerated spaces. Solihull EZ, part of the WMCB, includes Birmingham airport's industrial zone.

[21] 'General' means at least one of the following dimensions of deprivation: Skills, employment, income, barriers to housing, environmental factors, crime. 350 out of its 639 neighbourhoods belong to the 20% most income deprived in England (BCC Deprivation in Birmingham 2019).

[22] In 2014, Birmingham secured Government's investment of 354.7m pounds (which includes previous government investment commitments given since 2012 during the 'Deal') from the Local Growth Fund, to be invested between 2015-2021 (BCC 2014, Greater Birmingham and Solihull Growth Deal).

committed to *a)* eliminate - under a 'Skills for Growth' compact with employers, colleges and schools - local shortages of adults' skills; *b)* develop public land and regenerate decaying buildings and neighborhoods for housing and business *c)* establish life sciences institution as a regional sectoral hub for productivity growth as the focal point of its old-new EZ and d) to financialise future tax revenues, its main source of wealth and income, for investment in productivity enhancing infrastructures (UK Parliament, City Deals).

Put differently, regardless of its residents' social needs, Birmingham committed to invest its present and future assets in productivity enhancing initiatives. As was the case in Manchester, Birmingham's EZ benefits businesses to get 'trickling down' gains. With only 64% participation rate in the labour market and decreasing levels of residents' tax revenues, the idea of redistributive 'trickling down' mechanism was the main road to its regional productivity growth.

The EZ -which is scattered across 39 city center sites - is built around the 'older' finance and professional services sector, and the newly established 'hub' for Life sciences. It also hosts pharmaceuticals firms, creative industries, ICT, digital Media, and advanced manufacture, [23] all of which are IPR rich and enjoy substantial 'power over rent'.

Birmingham's labour market was driven mainly by the expansion of financial and insurance activities and other high-skilled occupations that, by 2018, counted for 41.7% of the workforce. As Hearne and Lewis (2024) showed, job creation in these sectors neither contributed to the distribution of income and wealth across society nor for real productivity growth. Instead, it generated high wage-driven nominal productivity growth in rent-extracting sectors, followed by increased property and services costs, that squeezed out wages and incomes for all the others, especially for the lower half of the wage curve. Consequently, the capacity of Birmingham's low skill sectors[24] - which during 2019 employed 40.7% of its local workforce (NOMIS 2019) - to increase wages and income was narrowed down (Driffield and Kim 2017). The jobs created in its EZ increasingly segregated underqualified local workers from employment opportunities and from the gains of nominal productivity growth (O'Farrell 2020).[25] As Slobodian (2020) put it, the EZ became a 'zone of exception', parting away from the rest of the labour market.

Policymakers' conviction that the EZs growth-potential sectors will increase productivity growth that would automatically put in motion trickle down mechanisms, boost job creation and un-inflationary wage growth that further boost productivity growth, confronted some real-world problems (O'Farrell 2020, 59). The overall investment in skills to which Birmingham committed itself in its devolution and city deal agreement lagged local needs. In 2016, Birmingham had the highest share of no qualification residents and saw the 15th lowest share – only 28% - of high-skill residents, among core UK cities (38% on average)

[23] In Birmingham, this sector includes electrical vehicles and battery production.

[24] Including transportation and storage; construction; food products, beverage and tobacco.

[25] Clarke and Sinaev (2013) show that in 2013, 80% of all private sector jobs in Birmingham were knowledge intensive jobs, to which most residents are under qualified. Subsequent expansion of IPR rich sectors did not change this trend (Brandam 2017; BCC 2019, 4).

(Piazza 2018). A report taken by Birmingham chambers of commerce in 2018 showed that a shortage of 'at least' NVQ1 and NVQ2 qualifications levels among local communities "significantly constrains Birmingham's [productivity] growth potential" (Stubbs and Riley 2018, BCC). Centre for Cities research (2023) showed that during 2019, Birmingham was 37% less productive than London. Its slow productivity growth proved to be tightly tied to the low qualifications' levels of its residence.

By 2018, 62% of Birmingham's GVA growth came from rent-extracting sectors. Finance and other professional services alone were responsible for 31.5% of this figure, and advanced manufacturing engineering for 15.2% (University of Birmingham 2020). Apparently, this growth strategy seemed to work. Between 2017-2018 Birmingham GDP grew by 4%, "outstripping the national average" (+1.4%) and London's GDP (+2.0%) (BCC 2019 Q4 Birmingham Update). Yet, regional productivity gaps remained between 15%-20% below the UK average and as *Chart 8 and 9* show, they even grew during the 2010s.

Chart 8

Source: ONS, productivity growth as percentage of the UK average

Chart 9

Source: ONS regional productivity growth 2019

Birmingham's EZ has been developed around the wards of Ladywood and Nechells, home for many of Birmingham's most deprived neighbourhoods. Most of Nechell's neighbourhoods belong to the 10% and 20% most deprived neighbourhoods in England. *Chart 10* compares qualifications levels in these wards, which host high growth sectors, with Birmingham and England's average in 2011 and in 2019. Latest relevant Data for 2019-2020 shows that 52% of Ladywood residents hold level 4 job qualifications and 57.8% of them employed in high-skill high-wage jobs, compared to Birmingham average of 29.9%. About 30% of its residents are unqualified or hold level 1 and 2 job qualifications and employed in low-skills low-wage jobs (BCC Ladywood factsheet 2020). Birmingham's EZs polarizing effects are evident, and reflect the low level of investment in skills, training and adult education.

Chart 10

Source: NOMIS 2011; *BCC* 2020.

This polarization also resulted in qualification mismatch. Evidence shows that about six years into the launch of its EZs, 36.4% of all good jobs are taken by in-commuting workers (Brandam 2017; BCC 2019, 4). Moreover, the overall rate of in-commuting high skill workers increased since 2012 from 20.4% to 23% (Centre for Cities 2023, tale of 2), meaning that qualification shortages are getting worse, not better. And while residents' employment rates slightly improved during the same period from 64% to 67.5%, they remained significantly below national average of 73% (BCC 2019, Labour Market Review). The percentage of work-related claimant, which has been more than doubled along with the development of Birmingham's EZ (O'ffarrel 2020, 29-30), from 5.9% in 2013 to 11.1% in 2019 (NOMIS ONS 2024), is another indication for the low-level jobs created for the underqualified workers.

Up to the end of the decade, the impoverished Birmingham city council, saddled by its city deal investment commitments, lacked the resources to change much. In 2019, 43.5% of its revenues came from business tax rates, have been earmarked for reinvestment in infrastructure projects. Only 27.3% of its revenues were sourced from council tax (Tomlinson et.al, 2022) and used to finance essential services, with no room for new investment in residents' skills, training and general well-being. In contrast to the 'trickle down' myth, the EZs increased in-regional divides. Economic growth did not trickle down but 'trickled out' of Birmingham. ONS data below might be the best summary of this counterproductive policy to narrow down regional productivity and growth gap. In 2012, GDP gap between Birmingham and London was 60%. In 2019, it was 61% (*chart 11*).

Chart 11

Source: ONS 2020

The regeneration of Birmingham city centre was also supposed to improve employment opportunities for locals and boost productivity growth. Gibbons, Overman and Sarvimaki (2021, 10) showed that although "subsidizing the development of commercial space through [city-centre regeneration] created some additional workplace employment", there is no evidence that locals gained from them. Rather, they "served other interests". These interests are discussed in the following section.

Rent-led Profitability and collateral damage

The savings enforced by austerity cuts on Birmingham included the selling of public land and buildings by different public bodies (Leo Beswick, 23 February 2018, People powered Housing).[26] Between 2016-2018 alone the city sold 167 properties. Formally, the city deal included the commitment that 35% of the new built apartments in each regeneration project would be affordable.

Since 2016, the epicentre of the massive regeneration that Birmingham went through was the city centre Ward of Neschells, part of the Ladywood district. As already mentioned, these Wards contain some of England's most deprived neighbourhoods. Only 29.9% and 51.4% of Nechells and Ladywood residents, respectively, are "not deprived" (Census 2021),[27] with many residents on the waiting lists for affordable housing (Huffpost 2018). Although

[26] For example, the local Department for Health buildings were sold in a substantially under-market price to private sector investors (Leo Beswick, 23 February 2018, People powered Housing).

[27] The average for all local authorities in England stands at 48.8% (ONS 2021).

the local government defined 'affordable' as "tied to the average market rents" (O'Farrell 2020, 27) and not, for example, to the average local income, it failed to achieve this target. This failure was the first 'collateral damage' resulting from the financial state of an impoverished authority, that had to replace previous dependency on government budgets with new dependency on the interests of rent-seeking private investors.

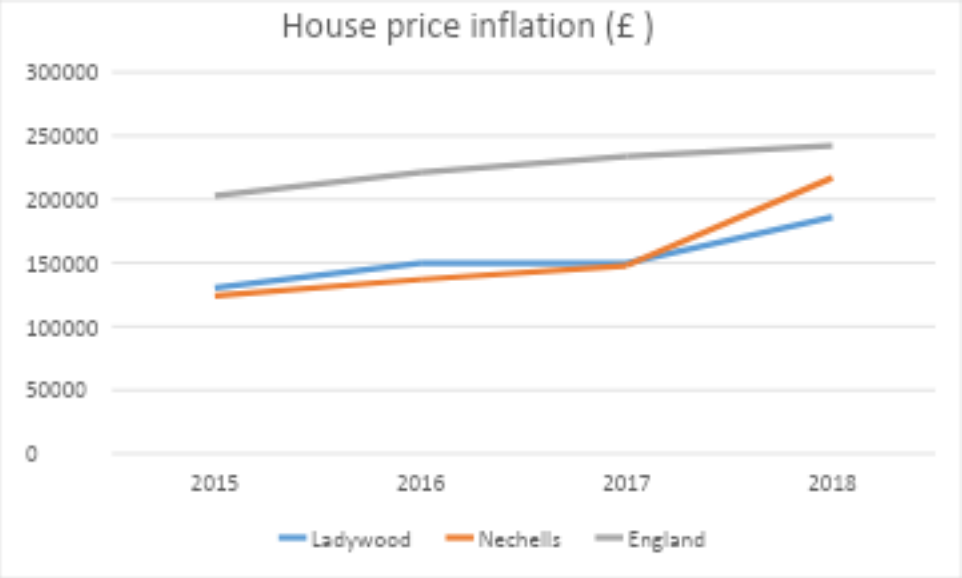
As some researchers showed "positive city-wide housing demand shocks endogenously result in neighbourhood gentrification" where poor residents pay the social-economic price of its effects (Guerrier et.al 2010, 38-39). In the case of Birmingham, the "influx of young professionals" attracted to the city centre area by its proximity to employment centres (Centre for cities Rob Johnson 2023)[28] went hand in hand with regeneration projects and increasing levels of rent-led development. This type of demand shock affected deprived areas which border the city centre employment opportunities. Important signs for gentrification were the decline of unemployment claimants and deprivation rates in previously deprived neighbourhood, against the background of declining public investment in residents' skills, social housing, and the well-being of low-income households.

The Wards of Nechells went through massive regeneration during the 2010s. Its regeneration projects became a driver of this type of demographic change. In just four years, Nechells deprivation rate declined from the 8th most deprived ward in Birmingham to the 24th, and Ladywood's rate from the 32nd most deprived ward to the 42nd (BCC 2019). Compared to all other wards, these two made the most impressive progress. Since local authority did not increased investment either in affordable housing or in skills and adult education, this 'improvement' points to a process of gentrification and signals the expansion of 'trickling up' distribution.

The geography of unemployment rates is also telling. In Nechells, unemployment in neighbourhoods that do not border city centre vs those that do are 6% and 2.5%, respectively. In Ladywood, employment rates in out-of-centre neighbourhoods vs city centre ones, are 5.2% and 2.5%, respectively (BCC 2019). Only retrospectively, the BCC (2022) acknowledged that while regenerated areas developed into afluent neighbourhoods, "the remainder of the Ward…[is] relatively economically impoverished". But during 2015, Birmingham sold twice the number of council homes that it built, and up to 2018 the regeneration trend in the city centre and its neighbouring areas produced a gentrifying house price boom. Nechells' neighbourhoods that border the city centre became unaffordable to low-income households, while previous shortage of affordable housing got worse by the overall sale of public land to rent-seeking private investors (New Economic Foundation Report 2019; O'farrell 2020, 61).

[28] Since mid-2010s, "finance giants" HSBC, PwC, Goldman Sachs joined Birmingham's financial hub placed in Ladywood district, a central source for high-skill job opportunities (Birmingham city university 2022).

Chart 12



Source: ONS UK house price index 2019; house price inflation/Wards

The city deal became a trajectory for the expansion of rent-led growth into Birmingham. For regeneration projects, none of which hit the target of 35% affordable housing, Birmingham set the selling of 200 void public properties (Tomlinson et.al, 2022). Most regeneration projects served rent-led growth expansion. For example, a local "Canary Wharf" project combined high standard office buildings with up market rentals. Another example is the "Shoreditch" of Birmingham, that entailed newly built high-standard rental apartments designated for high-income households employed in rent-led sectors of Birmingham EZ ("How has Birmingham been regenerated"). The BCC refused to disclose to Huffpost UK investigation the prices earned for the sale of public property for these and other developers (Davies et.al, 2019).

In 2017, the BCC established a wholly owned private housing company named InReach, to carry regeneration projects and build affordable housing to answer local pressuring needs (BCC 2017, Brum's housing). This project failed twice. First, up to 2023, the company built only 92 1- and 2-bedroom apartments in Ladywood for the private rental market. Second, 'affordable' has been defined as the average rental market price, which has been pushed up by rentiers. In a city where low-income households get a yearly wage of £22,500, and in a Ward where many locals suffer housing deprivation, InReach charged £192 weekly rent for a two-bedroom apartment. These 'affordable' prices distanced most in need locals from the new project (REFERENCE). Private investors didn't even do that. Data shows that during 2016/17, only 425 out of 4768 new built homes, less than 10%, were titled as 'affordable'. The rest were mostly built for the private rental market, benefitting rent-led developers claiming and showing calculations that they cannot afford selling affordable apartments at a discount and instead pushing up rental prices (Huffpost, Slawson and Elkes 2018).

Along with a booming housing market and the concentration of high-skill high-income jobs in its EZs, the increasing socio-economic polarization between neighbouring areas reflected the expansion of bottom-up redistribution. This expansion posited Birmingham the 4th among core English cities in the category of social polarization. The proximity between highly deprived and affluent neighbourhoods (BCC Deprivation in Birmingham 2019), demonstrates the in-ward segregation and divides that emerged out of the specific patterns of Birmingham's regeneration and industrial strategy. Once again, trickling down remained a logical theoretical model with no empirical base.

The city deal, which enforced central government interests on austerity hit Birmingham, not only prevented the city from investing in skills that might have generate the desired levels of regional productivity growth but also decreased its ability to provide its residents' needs without going bust (REFERENCE). The idea of devolved, self-centered local authorities which are best placed to advance their interests and maximize their utility, brought Birmingham to a precarious financial state (2019). As happened in Manchester, Birmingham regeneration projects and EZs became a 'zone of exception' for rent-led investment and profits, that created a new frontier for the 'old' bottom up' distribution of rent-led growth amid a largely deprived, low productivity city region. Rentiers had once again won. Birmingham, and its residences, lost.

Discussion and Conclusions

The effort to 'rebalance' regional productivity growth throughout the 2010s paralleled the post-GFC effort to shore-up the UK's GM by setting fiscal austerity and expansionary monetary policy (Hay 2023, 23). Consequently, the city deal policy involved low levels of public investment, growing levels of financialised LGs debts and private investment, that pushed the expansion of the rent-led GM into peripheral zones. As this paper showed, the GM continually functioned as a conditioning cause, predisposing the redistribution of regional development and investment. The consensual and institutionalized macroeconomic framework that kept the GM going, 'planted' the 'bug' of upward redistribution into the city deal policy and counteracted its 'rebalancing' aspirations.

Testing my two hypotheses against the collected data revealed the ways by which the relationships between the new policy of city deals, the rent-led GM and the macroeconomic policy that strove to restore its operation, led to the counterproductive results of the government's 'rebalancing' aspirations.

Hypothesis A: The city deal policy served as a transmission mechanism for rent-led expansion by making profitable peripheral regions that were unattractive for rentiers before.

The city deal policy was designed to shift the regional distributional outcomes of the deep-routed trends of the rent-led GM (Christophers 2020) by derisking businesses' investment in deindustrialised and underproductive regions. The tax reliefs, loans and guarantees the policy provided; the infrastructures and facilities to which devolved LGs directed their future tax revenues; and the pool of talents and complementary services that the specific industrial hub they belonged to provided them, attracted more firms to join in.

But the 'trickling down' chain effect the government hoped to put in motion did not materialized. Instead, the city deals policy turned into an engine of rent-led expansion. In both Manchester and Birmingham, job opportunities in 'growth industries' attracted an influx of new high-income households from the professional occupational classes (Frasham 2020). The hardly 10% of the workforce these IPR rich growth industries employed produced narrow distributive effects, and distanced the possibility that 'trickle down mechanisms' will make their first successful performance ever. Instead, the 'old' bug of rent-led growth, the upwards distribution, has been reproduced. Concurrently, the policy transformed regions that have been previously unattractive for rentiers into the new frontier of rent-led investments in housing markets. The expansion of the professional class increased demand for up market housing. The regeneration of previously deprived neighbourhoods answered this growing demand by new built apartments for the rental market.

In both cases, as I hypnotised, the expansion of IPR rich sectors in low productivity regions depressed real wages and consumption power of most of the workforce and did not trickle-down to other parts of the labour market. Rather, it further decreased the potential for regional productivity growth.

In Manchester, more than 60% of productivity growth resulted from industries that employed mainly high skilled and young professionals in rent-extracting sectors. Employment became polarized between a small class of high-skill high-income professional jobs, and low-skill low-paid jobs which constituted a major part of the labour market. With future business tax revenues being financialised for infrastructure and regeneration investment, the vicious circle of low-wage low tax revenues collected from residents further decreased investment in adults' education and skills and reproduced this polarization.[29] Behind these counterproductive outcomes stand shortage of high skilled workers across low productivity regions (ISC 2020, 34;36). Surveys conducted by the end of the 2010s show that skills shortages are the main reason behind low social mobility levels in the UK (Social Mobility Committee 2019; ISC 2020, 27) and, as this paper shows, behind in-regional, and consequently regional, productivity gaps.

During the 2010s, most of Birmingham's GVA growth came from rent-extracting sectors. Job creation was driven mainly by the expansion of financial and insurance activities and other professional occupations (Centre for Cities 2023). The high skilled jobs created in its EZ brought an influx of young professionals to regenerated neighbourhoods. The BCC, committed by its city deal to invest in residents' skills, failed to do so. As this paper showed, the percentage of jobseekers' claimants has been more than doubled along with the development of Birmingham's EZ (NOMIS ONS 2024). A report taken by Birmingham chambers of commerce in 2018 showed that the shortage of 'at least' NVQ1 and NVQ2 qualifications among local communities harms its [productivity] growth potential (Stubbs and Riley 2018, BCC).

[29] As noticed above, government commitment to match investment in skills is conditioned on outcomes (City Deal 2012). Employers' investment in skills decreased by almost 30% since 2011-2020. Public investment has fallen by about the same amount during these years (Tahir (IFS) 2023).

Hypothesis B: the City deal policy failed to narrow regional productivity gaps. Instead, it increased LGs' dependency on rent-led sectors that tend to decrease productivity growth.

The devolution of powers and responsibilities to local governments, the centrepiece of city deals, have been also subjected to the austere fiscal regime and the expansionary monetary policy the BoE employed to compensate for austerity's deflationary pressures (O'Farrell 2020, 26; Oren and Mandelkern 2024). This macroeconomic policy also produced and reproduced the dependency of LGs on the interests of rentiers.

Regeneration projects were meant to turn decaying city centre areas for productivity growth hubs and supply affordable housing. But given the growing dependency of LGs on private investment, the road to exploiting regeneration initiatives for rent-extracting opportunities was quite short. Regeneration projects have become largely depended on the extent to which LGs could make rentiers' investment in these regions worth their while.

The MCC, as the owner of the land that was allocated for regeneration projects, apparently had the upper hand in setting the terms for private developers' bids. But as a finance starved council, it was depended on their investment and had to accept their terms and priorities and leave behind its affordable housing aspirations. Its agreements with the Abu-Dhabi United Group (ADUG) and the Hilton corporation discussed above demonstrate this dependency.

In Birmingham, the combination between 55% austerity cuts, the incentives and terms attached to city deals and Birmingham's financial state fed each other and forced the BCC to sell public land and buildings under conditions that benefitted rentiers. The refusal of the BCC to disclose to Huffpost UK investigation the prices earned for the sale exemplifies this trend. Instead of easing housing costs for local communities, regeneration projects increased their mass displacement. Up to 2018, a gentrifying house price boom negatively affected productivity growth. House price inflation in places like Piccadilly and Ladywood indirectly increased local services costs and further boosted the exclusion of residents from employment centres. Consequently, they narrowed down Birmingham's productivity growth. During 2019, Birmingham was still 37% less productive than London (Centre for Cities 2023). The state of Manchester, with around 35% lower productivity growth than the South-East, was no better.

In both cases demographic change and in-commuting workers became part of an evolving strategy of regional growth. These trends deepened the gap between the 'winners' and 'losers' of the City Deal's distributive effects, further pushing the boundaries of city centre to its bordering areas. Compiling data showing underinvestment in adult education and skills, with data showing the changing distribution of skills across regenerated neighbourhoods and EZs during the 2010s, and with data showing percentage of employment related benefit claimants in these areas, the paper revealed the results of this dependency: with hardly any investment in skills, the declining rates of unemployment claimants and the increasing rates of high skilled locals point to a demographic change in regenerated neighbourhoods. It also

points to a causal relation between *a)* the expansion of upmarket rent-led investment, *b)* gentrification and *c)* the failure to increase productivity growth.

OECD data (2022) of Manchester productivity growth shows it remains below national average because of the low supply and utilization of skills, despite being "home for high productivity industries". Low deprivation indices in regenerated neighbourhoods bordering the city centre constitute a mirror image of neighbourhoods in the same wards which have not been rebuilt. The paper found a positive relation between deprivation levels and residents' distance from rent-led investment areas. In Birmingham, in-wards segregation and divides – which graded the city 4th among English cities in the category of socio-economic gaps between neighboring areas - emerged out of the specific patterns of regeneration and industrial strategy the city went through (BCC 2019 Deprivation in Birmingham). By 2019, Both Manchester and Birmingham city centres became new enclaves of shiny modern office buildings and new affluent neighbourhoods that unrecognisably changed these areas. This change, however, which reflected the bottom-up redistribution produced by rent-led sectors and rent-led regeneration, excluded local communities and, in turn, held back – as *chart 1* shows- regional productivity growth.

EZs growth levels did not function as an engine for regional growth (ISC 2020). They gradually "punched holes" (Slobodian 2023) and created 'persistent pockets' of poverty (Waite, McGregor and McNulty 2017, 5) in under-productive regions, creating "zones of exception" for IPR rich industries and distanced them away from local democratic scrutiny. In both cities, residents 'exclusionary displacement' brought by rent-led investment led to their inability to share the prosperity. Exclusionary trends increased income gaps between regenerated and decaying neighbourhoods within the same ward and led to multiple deprivation for growing numbers of residents. As I showed above, employment related claimants increased in these areas from around 5% in 2013 to 11.3% in 2020 (ONS 2023 time series; NOMIS ONS 2024ה).

In 2020, ten years into the operation of the city deals policy, an ISC's report showed that the level of regional productivity gaps in the UK reached a century period pick. Yet, demonstrating that bad ideas die hard, if at all, in 2020 this policy was integrated into the Johnson's government 'levelling up' program, with the idea that boosting the private sector will trickle down and provide higher wages and higher living standards for all the rest (HM Government 2022, p. 17; 20-21 Roman letters), once again guiding policy.

The words of Andy Street, the Mayor of Birmingham's city region (WMCA), stating that "the largest local authority in Europe had in effect gone bust while the city around it was booming" (FT 2024, February 23), might be the best summary to this paper. The end game of this policy is a risking state for devolved LGs and a derisking state for rent-led businesses, which continually reproduce the 'old' distributions of the rent-led GM that created regional productivity gaps in the first place.

Bibliography

Alasdair, Rae, Ruth Hamilton and Ryan Powell (2016). Overcoming Deprivation and Disconnection. Joseph Rowntree Foundation.

Arndt H. W 1983. The 'Trickle Down' Myth. Economic Development and Cultural Change 32(1), 1-10.

Avsar, Rojhat B. (2014). "Just a Little "froth": Tracing Greenspan Ideology". The Social Science Journal 51, 309-315.

Ayres, Sarah, Matthew Flinders and Mark Sandford (2018). Territory, Power, and Statecraft: UnderstandingEnglish Devolution. Regional Studies 52(6), 853-864.

Baily, Daniel (2017). "Economic Renewal through Devolution? Tax reform and the Uneven Geography of the Economic Dividend". Competition & Change 21(1), 10-26.

Beel et.al (2018). Elite City Deals.

Berry, Craig, Julie Fraud and Tom Barker ( ). The Political Economy of Industrial Strategy in the UK: From productivity Problems to Development Dilemmas (Agenda Publishsing; Newcastle).

Berry, Christine and Laurie MacFarlane (2020). The Conservatives' Political Economy: 'State Rentier Capitalism' or old wine in new bottles? Renewal 30(2), 35-47.

Birmingham City Council (2014). Census 2011. What does this mean for Birmingham?

---------- (2019). Birmingham Update. Q4 2019.

---------- (2019). Deprivation in Birmingham

---------- (2019). Birmingham Labour Market Update.

---------- (2019). Ward Fact Sheet; Ladywood; Nechells.

Blunkett, David, Matthew Flinders and Brenton Prasser (2016). Devolution, Evolution, Revolution, Democracy? What's Really Happening to English Local Governance? Political Quarterly 87(4), 553-564.

Bondy, Asaf and Erez Magor (2023). NPE.

Brandily, Paul (2023). A Tale of Two Cities. The Economy 2030 Inquiry.

Brandon, Lesley (2015). Qualifications in Birmingham (Updated 2017). BCC.

Brien, Philip (2021). The UK's Prosperity Fund. Briefing Paper, 29 January.

Brokenshire, James MP. (2018). Speech, given at TheCityUK National Conference, 22 November

Brown, Gareth and Stephanie Nixon (2012). "City Deals". Bulletin, Centre for Local Economic Strategies.

Bua, A, Laurence, R. and Vardakoulias, O. (2017). Understanding Devolution: a critical appraisal of the Greater Manchester devolution deal. London: Economic Foundation.

Butler, Patrick (2018). Territorial Injustice May Rise in England due to Council Cuts. Guardian, 9 October.

Clayton, Naomi and Louise McGough (2015). City Deals and Skills System. Centre for Cities.

Centre for Cities (2013). Ed Clarke, Paul Swinney and Dimitry Sivaev.

---------- (2019). Report.

Christophers, Brett (2022). Rentier Capitalism. Verso Books.

Christophers, Brett (2024). The Price is Wrong. Verso Books.

Chou, Winston and Rafaela Dancygier (2021). "Why Parties Displace Their Voters: Gentrification, Coalitional Change, and the Demise of Public Housing." APSR 115(2), 429-449.

Collinson, Patrick (2017). Birmingham named poorest in UK has fastest house price rises. Guardian, Nov. 28).

Committee of Public Accounts (2021). Industrial Strategy Challenge Fund.

Committee of Public Accounts (2016). Devolving Responsibilities to Cities in England: Wave 1 City Deals.

Coyle, Diane and Marianne Sensier (Regional Studies 2020: The imperial Treasury: Appraisal methodology).

Craft, Nicholas (2017). A New Industrial Strategy: Making Britain Great Again? The Political Quarterly 88 (2), 315-

Dekker, Erwin, Blaz Remic and Carolina Dalla Chiesa (2020). Incentives Matter, but What Do They Mean? Understanding the Meaning of Market Coordination. Review of Political Economy 32(2), 163-179.

Department for Business, Energy and Industrial Strategy (2017). Industrial Strategy: Building a Britain Fit for the Future.

Driffield, Nigel and Jae-Yeon Kim (2017). Inward Investment and Productivity across Sectors within the WMCA. Warwick Business School.

Elliott, Larry (2020). EU's Funding for UK's Poorest Areas 'Must be Matched After Brexit'. Guardian, 17 January.

Etherington, David and Martin Jones (2016). "The City Regions Chimera: The Politica Economy of Metagovernance Failure in Britain". Cambridge Journal of Regions, Economy and Society 9, 371-389.

Evemy, John, Craig Berry & Edward Yates (2023). Low Interest Rates, Low Productivity, Low Growth? NPE 29(2), 240-259.

Fetzer, Thiemo (2019). Did Austerity in the UK lead to the Brexit Crisis? Harvard Business Review 109(11), 3849-3886.

Fransham, M (2020). Neighbourhood Gentrification, Displace ment and Poverty Dynamics in Post Recession England, Population, Space and Place 25(5).

Gibbons, Stephen, Henry Overman and Matt Sarvimsky (2021). The Local Economic Impact of Regeneration Projects: Evidence from UK's single Regeneration Budget. Journal of Urban Economics 122, pp1-10.

Giles, Chris (2020). UK Regional Productivity Gap widest in a Century. FT, 4 February.

Giles, Chris (2021). MPs Criticize UK Industrial Fund over Failure to Focus on Results. FT 30 April.

Gray, Mia and Anna Banford (2018). The Depth of the Cuts: The Uneven Geography of Local Government Austerity. Regions, Economy and Society 11(3), 541-563.

Greater Manchester Business Board (????). Local Enterprise Partnership.

Greater Manchester and Solihull (????). Driving Inclusive Economic Growth in Our Area.

Greater Manchester Chambers of Commerce (2020). Birmingham Economic Review 2020.

---------- Combined Authority (2023). Census 2021 Briefing.

---------- (2019). Independent Prosperity Review: Productivity and Pay.

Hearne, David and Paul Lewis (2024). Challenging Misunderstandings of Labour Productivity for Levelling-Up. Contemporary Social Science. DOI: 10.1080/21582041.2024.2439466

Hirschman, Albert O. (2013). The Passions and the Interests. Princeton University Press; Princeton and Oxford.

HM Government (2011). Unlocking Growth in Cities.

HM Government (2011). City Deals. White Paper.

HM Government (2015). The New Enterprise Zones (Announcement). 25 November.

HM Government (2022). Levelling Up white Paper.

HM Government (2016). "Radical Shake up of Power Puts Communities in Control". Cities and Local Government Devolution Act, Press Release, 18 January.

HM Treasury (2016). Press Release: Cities and Local Government Devolution Act. 28 January.

Holgersen and Beats 2016. Beyond the liberal critique of 'trickle down'. International Journal of Urban and Regional Research 40(6), 1170-1185.

Havris, Tom, Louis Hodge, David Phillips (2019). English Local Government Funding: Trends and Challenges in 2019 and Beyond. IFS, 13 November.

Jones, Peter et. All (2017). "A commentary on the City Deals in the UK". Journal of Public Affairs 17, e-1661.

LGIU (????). Reflecting on the UK City Deals: Unlocking Local Government, Potential or Maintaining the Status Quo?

Manchester City Council (2016). Report for Resolution. 6 January.

McGuiness, Greenhalgh and Puglais (2015). Is the Grass Always Greener? Making Sense of Convergence and Divergence in Regeneration Policies in England and Scotland". The Geographical Journal 181(1), 26-37.

National Audit Office (2015). Devolving Responsibility to Cities in England, Wave 1 Dity Deals.

Norman, Andy (2021). The UK's Sub-Regional Inequality Challenge. Centre for Progressive Policy, 12 January.

O'Brien, P. and Pike, A. (2015) 'City Deals, decentralisation and the governance of local infrastructure funding and financing in the UK', National Institute Economic Review, no. 233, pp. R14-R26.

O'connor, Abi (2022). Provate Sector Redevelopment is Transforming Liverpool – but who benefits? The Sociological Review, 8 February.
O'Farrell, Liam (2020). Governance and Urban Development in Birmingham. University of Birmingham.

O'Farrell, Liam (2020). Governance and Urban Development in Birmingham. University of Birmingham.

Osborne, Clark, Wharton Radical shake-up of powers puts communities in control, 28 January 2016 GovUK.

Riley, Bec and Liam O'Farrell (2019). West Midland Data Book 2019-2020.

Regeneration, Communities and Local Government Committee (2011). The Localism Bill.
Sensier, Marianne 4 March 2021
http://blog.policy.manchester.ac.uk/posts/2021/03/the-levelling-up-budget/

Sissons, Paul, Anne E Green, Kevin Broughton (2019). Inclusive Growth in English Cities: Mainstreamed or Sidelined? Regional Studies 53 (3), 435-446.

Slobodian, Quinn (2023). Crack-Up Capitalism: market radicals and the dream of a world without democracy. Metropolitan Books.

Streeck, Wolfgang and Daniel Mertens (2013). Public Finance and the Decline of State Capacity in Democratic Capitalism, in Political in the Age of Austerity, p.

Taylor, Abigail, Skye Sampson and Anna Romaniuk (2021). What does it Take to "Level Up" Places? Evidence from the International Experience. Industrial Strategy Council, January.

Tomaney, John and Andy Pike (2020). "Levelling Up"? The Political Quarterly 91(1), 43-48.

Waite, David, Alan McGregor and Des McNulty (????). City Deals and Inclusive Growth, Issue Paper. Joseph Romtree Foundation.

Wallis, William (2024). Bankrupt Birmingham Council takes drastic steps to balance the books. 19 February, FT.

Ward, Matthew (2022). Enterprise Zones. House of Commons Library.

Ward, Matthew (2023). Local Growth Deals. House of Commons Library.

William, Jennifer (2023). Levelling Up Agenda Has Stalled Under Sunak. 14 September, FT.