

Fostering Coordination to Bridge the UK's Regional Disparities: A Response to Rachel Reeves's Mais Lecture

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Abstract

This article discusses different policy approaches to achieving one of the key goals that Rachel Reeves set out in her Mais lecture in 2024: bridging regional inequalities in the UK. If it is agreed that the unfettered free market economic model pursued by successive governments in recent decades has led to an intolerable regional concentration of high value-added, innovative production, what alternative policy options are there? The article considers two answers to this question. The first option is to promote innovation through top-down state intervention in key economic sectors. While this approach is becoming increasingly popular among proponents of industrial policy in advanced economies, its potential to reach a wide range of firms and sectors behind the technological frontier is limited. Instead, the article favours a second, comparatively under-explored policy option: facilitating inter-firm and public-private coordination. Three key policy tools are presented for implementing this second approach in the UK context.

Keywords: regional inequalities, left-behind places, industrial policy, coordination, liberal market economies (LMEs), Labour Party

Well-defined challenge, elusive solutions

IN HER MAIS LECTURE, Rachel Reeves emphasised that broad-based, inclusive growth must mobilise 'the human potential found in every town and city ... We cannot rely on just a few pockets of the country to drive growth and productivity'.¹ This observation is underpinned not only by an economic rationale, but also by a growing concern during the last decade about the explosive political consequences of growing geographical inequalities. In Reeves's words, 'a model based on the

pursuit of narrow-based, narrowly shared growth ... cannot produce adequate returns in growth and living standards, and nor can it command democratic consent'. The implication is that the UK can no longer afford to rely on a model of fostering aggregate growth at the national level while using taxation and redistribution as the only instruments to spread the proceeds of growth across the country. Instead, the government must pay attention to 'where things are made and who they are owned by'.²

But how can policy makers promote a geographically balanced distribution of innovative economic production and attractive jobs? This is a tough challenge and the solutions are not straightforward. In the UK, a variety of policy initiatives have aimed to reduce regional economic disparities since at least the 1920s and yet geographical inequalities have increased substantially, particularly since the 1980s. Italy's major north-south divide—already present when the country was created

¹R. Reeves, *Rachel Reeves Mais Lecture 2024*, The Labour Party, 19 March 2024; <https://labour.org.uk/updates/press-releases/rachel-reeves-mais-lecture/>; W. Jennings and G. Stoker, 'The divergent dynamics of cities and towns: geographical polarisation and Brexit', *The Political Quarterly*, vol. 90, no. S2, 2019, pp. 155–66; K. Gartzou-Katsouyanni, M. Kiefel and J. J. Olivas Osuna, 'Voting for your pocketbook, but against your pocketbook? A study of Brexit at the local level', *Politics & Society*, vol. 50, no. 1, 2022, pp. 3–43.

²Reeves, *Mais Lecture*.

in 1861—has proved immune to a long series of policy initiatives to reverse it since World War Two. Even Germany's efforts to promote economic convergence between East and West Germany after reunification have been far from an unqualified success. This is despite 'Aufbau Ost' ('Rebuilding East Germany') being one of the best-funded and longest-term programmes of its kind.³ While the EU's cohesion policy is one of the most sophisticated and well-funded regional development policies in the world and has achieved important successes, there remains considerable uncertainty about the most effective approach to pursue its goals. When the European Economic Community was first created, it was believed that the Rome Treaty's aim of 'reducing the differences existing between the various regions and the backwardness of the less favoured regions' could largely be achieved via interregional trade.⁴ Cohesion policy first emerged as a 'genuine regional development tool' in 1988, when previous financial instruments that had a purely redistributive character were reformed so that they would fund particular types of projects in specific regions, following the principles of concentration on limited objectives, multi-annual programming, additionality to domestic policies and partnership with stakeholders at the subnational level.⁵ Nevertheless, to this day, the correct balance between top-down and bottom-up or endogenous development approaches, the optimal policy instruments associated with each

approach and the merits of funding different kinds of projects—from transport infrastructure to skill formation and business research and development—remain hotly debated matters, leading to considerable policy changes from one seven-year programming period to the next.

Clearly, the question of how the new Labour government can most effectively pursue the goal of bridging the UK's regional disparities is far from trivial. In her Mais lecture, Reeves foreshadowed some useful broad contours for Labour's approach. First, she rejected the top-down, highly centralised industrial policy paradigm of the decades before the 1990s, acknowledging that policy makers should work 'in genuine partnership with business' both 'to identify the barriers and opportunities' that firms face and to stimulate investment. Secondly, she argued that economic policy should not focus exclusively on boosting firms and sectors at the technological frontier, but should also help improve productivity behind that frontier, including among firms that serve the 'everyday economy' of 'retail, care, transport, delivery, utilities, and more'. After all, 'a strong economy cannot rely only on the contribution of the few firms at the leading edge'. Related to these two points Reeves emphasised the importance not only of direct government intervention in the economy, but also of governance: of 'getting the institutional framework right' to deliver on Labour's core mission of promoting economic growth.

The lecture was, however, thinner on the details of how these principles will be implemented in practice—to some extent understandably, given the magnitude of the related challenges and the lack of consensus on how to address them. Reeves highlighted the importance of decentralisation, but empowering subnational governments is not in itself sufficient to ensure that subnational authorities in the UK will develop the kinds of partnerships with local businesses, workers and third sector organisations that will allow them to enhance local productive capacities. Despite the importance that Reeves attached at a general level to supporting firms behind the productivity frontier, in practice the specific sectors that she mentioned through most of the lecture tended to be high-tech and to employ a small share of the population: 'general purpose AI and other digital

³R. L. Martin, et al., *Levelling up Left behind Places: The Scale and Nature of the Economic and Policy Challenge*, Abingdon, Taylor & Francis, 2021; L. Polverari, 'Policy rhetoric versus political reality: has the Italian state given up on the Mezzogiorno?', *Regional & Federal Studies*, vol. 23, no. 5, 2013, pp. 571–590; HM Government, *Levelling Up the United Kingdom*, White Paper, 2022; https://assets.publishing.service.gov.uk/media/61fd3c71d3bf7f78df30b3c2/Levelling_Up_WP_HRES.pdf.

⁴S. Piattoni and L. Polverari, 'Cohesion policy and European Union politics', in S. Piattoni and L. Polverari, eds., *Oxford Research Encyclopedia of Politics*, Oxford, Oxford University Press, 2019, p. 3.

⁵M. Brunazzo, 'The history and evolution of cohesion policy', in S. Piattoni and L. Polverari, eds., *Handbook on Cohesion Policy in the EU*, Cheltenham, UK, Edward Elgar Publishing, 2016, pp. 17–35, at pp. 22–23.

technologies’, ‘critical technologies’, ‘life sciences’, ‘professional and financial services’, ‘net zero technologies’, and ‘floating offshore wind and carbon capture and storage’. More than the ‘squandered potential of all our lost Einsteins and Marie Curies’ in the UK’s periphery, it is many regions’ unsatisfactory upgrading performance in more traditional, less glamorous sectors that really ‘makes us all poorer’. Relatedly, it is not only ‘the benefits of agglomeration’ that need to be unlocked ‘across Britain’—as Reeves mentioned—but also the benefits of the geographically selective dispersal of ‘footloose’ economic activities, particularly in the service and advanced manufacturing sectors, which can be more relevant to struggling towns and rural areas than agglomeration economies.⁶ The flagship initiatives mentioned in Reeves’s Mais lecture—such as the National Wealth Fund, Great British Energy, planning reform, local housing targets and infrastructure investment—make a lot of sense on their own terms, but are unlikely to unlock spatially dispersed economic upgrading in a wide range of industries.

In the remainder of this piece, I will argue that as part of its strategy to foster regionally balanced growth in the UK, the new government should adopt policies that facilitate inter-firm and public-private coordination at the regional and national levels. In my view, this is the only way to effectively learn about and address what Reeves called the “different needs” and “different barriers” that different sectors face across the country. In the next section, I will place policies that facilitate coordination among economic actors in the context of the broader policy toolkit for promoting economic growth and innovation. In the third section, I will outline some concrete ways in which those insights can be applied to the UK context.

Promoting innovation from the top-down versus facilitating inter-firm and public-private coordination

As Reeves mentions, in recent decades, successive UK governments had considered that the best way to promote economic growth and

innovation in the country is through the operation of the market mechanism alone, with the state’s role being limited to correcting market failures occasionally via regulation. This view is in line with the model of the liberal market economy (LME) in the *Varieties of Capitalism* literature where—in the spheres industrial relations, vocational education and training, corporate governance and inter-firm exchanges—firms coordinate their relations with other actors via highly competitive markets rather than through the non-market forms of coordination observed in coordinated market economies (CMEs). This gives firms in LMEs a comparative advantage in economic activities that require radical (rather than incremental) innovation, as the market mechanism allows for a rapid redeployment of resources to new product lines in response to structural economic changes. However, if we agree that the unfettered free-market model yields intolerable consequences in terms of concentrating high value-added production in a few regions and a small number of large firms, what alternative options exist? If it is accepted—as Reeves also argues—that the state’s role should not be limited to ‘market fixing’ but should extend to ‘market cocreating and market shaping’, how exactly can this be implemented in practice?⁷

It is useful to distinguish between two approaches in response to these questions. The first approach focusses on directional, top-down state intervention to trigger economic innovation and is supported by scholarship on economic development in the Global South and increasingly also on industrial policy in the Global North.⁸ While the literatures on both the developmental state and on ‘mission-oriented’ industrial policy recognise the importance of state-business collaboration for the success of policies to promote economic innovation, the tools that many scholars advocate in practice tend to correspond to a statist policy framework where public authorities

⁷M. Mazzucato, ‘Mission-oriented innovation policies: challenges and opportunities’, *Industrial and Corporate Change*, vol. 27, no. 5, 2018, pp. 803–815.

⁸S. Avlijaš and K. Gartzou-Katsouyanni, ‘Firm-centered approaches to overcoming semi-peripheral constraints’, *Studies in Comparative International Development*, 2024; <https://doi.org/10.1007/s12116-024-09434-2>.

⁶Martin, et al., *Levelling up Left behind Places*, p. 69.

direct public investment in line with centrally-defined goals and rely on conditionality as the main instrument for securing private sector compliance. This approach can be effective in promoting innovation by a small number of large firms active in a few strategic sectors, but most governments will lack the resources, capabilities and information required to direct investment and set conditionalities centrally in the wider range of sectors that are relevant to what Reeves calls ‘the long tail of firms behind the productivity frontier’.

The second approach to a role for the state that goes beyond market fixing focusses on the facilitation of inter-firm and public-private coordination. The emphasis here is on improving governance arrangements among economic actors rather than on directly delivering predetermined economic results from the top down. Cooperation among firms—as well as between stakeholders from the private, public and third sectors—is a key ingredient of thriving local innovation ecosystems.⁹ This is particularly true for places with many small- and medium-sized firms which can acquire better capabilities for conducting research and development, upgrading quality, branding, training workers and acquiring access to customised services by pooling their resources rather than by acting alone. In turn, the strength of local innovative capabilities is known to contribute crucially to the ability of places to attract footloose economic activities that offer good jobs. Moreover, cooperation is necessary for a successful skills policy which Reeves highlights as a key goal for Labour: without cooperating with business, the public sector cannot know precisely what skills are lacking from the local economy, nor can it offer effective workplace training.¹⁰ Compared to top-down policies, the advantage of fostering inter-firm and public-private cooperation is that it can lead to the discovery of ways to improve productivity in a far greater range of places and

sectors than central government could ever reach directly, by harnessing the local and sectoral knowledge of multiple, diverse actors.

However, designing successful policies to foster inter-firm and public-private coordination requires thinking outside the box, as much more attention has been paid to both market competition and top-down state intervention as strategies for promoting economic development and innovation than to the facilitation of coordination. The *Varieties of Capitalism* literature regards coordination as the key enabler of innovation in CMEs, but remains pessimistic about the ability of national economies that have not developed successful coordinating institutions over a long period to do so in the short- or medium-term. More generally, successful inter-firm and public-private coordination is considered to be highly path dependent: in many places across the globe, cooperation among economic actors today is a repurposed form of older patterns of cooperation developed in earlier economic contexts.¹¹ Understanding how to promote cooperation in places lacking the sophisticated coordinating institutions encountered in CMEs and which have also faced an erosion in their social capital in recent decades—such as many left-behind places in the UK—is an important but understudied field of enquiry. To succeed in this task, we must both refer to the concepts and findings of the rich political economy and sociology literatures on cooperation more generally, and to carefully examine empirical cases from other countries where inter-firm and public-private coordination emerged against expectations.

How to foster coordination in the UK?

In a recent article I developed the concept of Facilitative overarching institutional frameworks (FOIFs) as macro-level institutions that facilitate inter-firm and public-private

⁹B. T. Asheim, H. Lawton Smith and C. Oughton, ‘Regional innovation systems: theory, empirics and policy’, *Regional Studies*, vol. 45, no. 7, 2011, pp. 875–891.

¹⁰P. Culpepper, *Creating Cooperation: How States Develop Human Capital in Europe*, Ithaca, Cornell University Press, 2003.

¹¹D. Ornston, *When Small States Make Big Leaps: Institutional Innovation and High-Tech Competition in Western Europe*, Ithaca, Cornell University Press, 2012; G. A. McDermott and B. A. Ruiz, ‘Regulating to exclude or to enable: institution building and transnational standard adoption in Mexican food safety’, *Studies in Comparative International Development*, 2024; <https://doi.org/10.1007/s12116-024-09438-y>.

cooperation by abating the obstacles to cooperation that local actors face.¹² Public policies can facilitate cooperation by addressing cognitive obstacles which arise when local actors who are not habituated to cooperation fail to conceptualise the benefits and even the nature of potential cooperative activities. Policy makers can also facilitate cooperation by making it easier to resolve collective action problems arising when ‘the individual pursuit of self-interest generates socially undesirable outcomes’.¹³

Subsidy schemes are clearly an important component of FOIFs: they can facilitate cooperation by reducing the upfront costs of cooperative activities, which are often substantial and must be borne at a time when the benefits of cooperation seem the most uncertain. However, to deliver on this potential, subsidy programmes must be designed in particular ways: they must address groups of local stakeholders rather than individual firms; they must fund the types of cooperative activities for which it is hardest for local stakeholders to raise funding endogenously; and they must be offered consistently over time so that they can catalyse durable changes in behaviour.¹⁴ This consistency is sorely lacking in the UK context, where successive governments have preferred to allocate funding to regions and firms for different types of projects using one-off, nationally competitive bids announced at irregular intervals. As explained to me by the interim CEO of the Local Enterprise Partnership (LEP) for Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2) in a discussion about the implications of the loss of EU cohesion policy funding in the UK after Brexit:

European funding has many advantages: it’s long-term, six-seven years, identifying the pot of money for the local area, and there is an

organisational history going back 20 plus years. So you’ve got continuity of support, and it doesn’t kind of fluctuate with the electoral cycles of the UK, it’s not on-off, on-off, on-off ... In the UK we’ve been hot and cold on regions, hot and cold on devolution to local areas, we’ve been consistently kind of centralist in our funding policy.¹⁵

Indeed, with some comparatively short-lived exceptions, UK regional funding programmes have been ‘delivered in a centralised, top-down manner with limited opportunities for inputs or collaboration amongst local and regional actors’. Little emphasis has been placed on addressing local structural issues for which coordination is key, such as weak innovation capacities and underdeveloped skills.¹⁶

In addition to subsidising the upfront costs of cooperation, FOIFs create new opportunities for deliberation among diverse stakeholders, helping to build associational capacities at the local and regional levels. Such opportunities for deliberation encourage stakeholders who do not habitually work together to discover the benefits of cooperation and formulate a common vision of how to transform the local economy. Some UK regional policy initiatives have attempted to build subnational associational capacities, most notably through the Regional Development Agencies (RDAs) from 1998–2012 and the LEPs since then. However, not only were the RDAs abolished in 2012, but even the LEP experiment fell out of favour with Conservative governments since 2019.¹⁷ This lack of long-term commitment to a specific governance architecture for facilitating strategic planning among local stakeholders significantly reduces the effectiveness of any efforts to promote local cooperation.

But even a government with a genuine commitment to strengthen associational capacities at the local and regional levels would have to consider the best way of doing so carefully, learning from the experience of other countries and from its own policy experiments—there

¹²K. Gartzou-Katsouyanni, ‘How can public policies facilitate local cooperation? Insights from the EU’s wine policy’, *New Political Economy*, vol. 29, no. 4, 2024, pp. 597–615.

¹³W. D. Ferguson, *Collective Action and Exchange: A Game-Theoretic Approach to Contemporary Political Economy*, Redwood City, Stanford University Press, 2013, p. 4.

¹⁴D. Breznitz and D. Ornston, ‘EU financing and innovation in Poland’, *European Bank for Reconstruction and Development*, 2017, Working Paper no. 198; Culpepper, *Creating Cooperation*.

¹⁵Interview with Matthew Wheatley, Nottingham, 25 May 2018.

¹⁶Martin, et al., *Levelling up Left behind Places*, p. 95.

¹⁷N. Gray and K. Broadhurst, ‘Post-Brexit regional policy in England: exploring “levelling up” in practice’, *Regional Studies*, vol. 57, no. 12, 2023, pp. 2551–2562.

are no textbook blueprints. To give a sense of the challenges involved, the EU adopted smart specialisation as a key pillar of cohesion policy in 2014. This meant that regions were required to consult with local communities and identify the policy priorities on which to focus investment in order to receive cohesion funding. In theory, this is precisely an exercise in building regional capacities to formulate tailored policy strategies based on a collective assessment of regional strengths and weaknesses. Indeed, in many cases the policy has also worked out that way in practice.¹⁸ However, in several other instances—and particularly in regions with weaker administrative capacities—the selection of smart specialisation priorities has been too broad, insufficiently based on consultation and evidence and it has reflected a tendency simply to ‘copy’ the strategies of neighbouring regions.¹⁹ Understanding how to build associational capacities in a way that works for economically and institutionally weaker regions is thus a key challenge for policy makers interested in promoting inter-firm and public-private coordination.

The final way in which FOIFs can facilitate cooperation is by empowering and incentivising local stakeholders to adopt cooperation rules tailored to their local and sectoral context and by assisting in the enforcement of those rules. The ability to adopt local rules that are credibly enforced makes it much easier for local stakeholders to overcome collective action problems. This idea comes from Elinor Ostrom’s work, which showed that common-pool resource users who were allowed to adopt binding rules related to the appropriation of local resources found it much easier to create cooperative arrangements in places where none existed before.²⁰ This mechanism has several applications in the field of local and regional development policy, although it has not been explored as much in that context as the questions of subsidies for cooperative

activities and the creation of local associational capacities. For instance a key macro-institutional success factor for the surprising emergence of cooperation in several Greek wine-producing regions in recent decades was the EU’s system of geographical indications, which encourages local stakeholders to adopt specific quality rules for local wines. This system made it much more difficult for opportunistic winemakers to undermine the reputation of local wines by undercutting quality and it thus significantly contributed to the success of upgrading efforts in a number of Greek wine regions.²¹ Equivalent certification systems could also facilitate cooperation in other instances—such as the green transition—which will require costly and coordinated changes in production methods at the local and sectoral levels.

Conclusion

Bridging the UK’s regional disparities is far from an easy task, but Reeves is correct that it has become a social, political and economic necessity. To succeed in this task and improve productivity not only at the technological frontier, but also in the far greater range of sectors where most workers are employed—we need to move beyond thinking of the UK as an LME where economic success stems from singularly promoting competition. Instead, partnering with business to remove the barriers that firms face across the country will require fresh thinking about the policy tools at the UK government’s disposal for promoting inter-firm and public-private coordination. More conversation, strategic thinking and policy experimentation is needed in this area in the years to come.

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¹⁸P. McCann and R. Ortega-Argilés, ‘Smart specialisation in the reformed EU cohesion policy’, in *Handbook on Cohesion Policy in the EU*, pp. 359–368.

¹⁹M. Di Cataldo, V. Monastiriots and A. Rodríguez-Pose, ‘How “smart” are smart specialization strategies?’, *Journal of Common Market Studies*, vol. 60, no. 5, 2022, pp. 1272–1298.

²⁰E. Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge, Cambridge University Press, 1990.

²¹Gartzou-Katsouyanni, ‘How can public policies facilitate local cooperation?’