

THE CORPORATE CONQUEST

HOW BIG COMPANIES SUCK MONEY OUT OF THE
NORTH EAST

About the High Pay Centre

The High Pay Centre is an independent non-party think tank established to monitor pay at the top of the income distribution and set out a road map towards better business and economic success.

We aim to produce high quality research and develop a greater understanding of top rewards, company accountability and business performance. We will communicate evidence for change to policymakers, companies and other interested parties to build a consensus for business renewal.

The High Pay Centre is resolutely independent and strictly non-partisan. It is increasingly clear that there has been a policy and market failure in relation to pay at the top of companies and the structures of business over a period of years under all governments. It is now essential to persuade all parties that there is a better way.

The High Pay Centre was formed following the findings of the High Pay Commission. The High Pay Commission was an independent inquiry into high pay and boardroom pay across the public and private sectors in the UK, launched in 2009.

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Foreword

Professor Danny Dorling

We are often told that only a few parts of Britain are punching above their weight. London is the economic driver of the nation and the taxes levied from Londoners, plus a few people living in the surrounding Home Counties, are all that is really keeping the wolf from the door as far as the UK economy is concerned. Statistics are quoted on the proportion of jobs in the public sector in different regions to suggest that the higher this is, the greater a drain on all our resources those regions must be. However, only very rarely are cities in the south, such as Oxford and London - with levels of public sector employment comparable to Middlesbrough or Leeds - mentioned. Their inclusion would not fit the simple story.

The simple story suggests that most people living in Northern Ireland, Scotland, Wales and the North of England, especially the North East, are kept people. These are people, the story goes, who contribute less to the economy than they draw on it. What this report does is help show just how insulting and simplistic that simple story is. If it were not for all the monies drained from these areas, through monopolistic control of vital - often privatised services - through a system which rewards southern shareholders more and more, and northern workers less and less, as wages fall but profit-taking rises, then the simplistic regional balance accounts would not tell such a distorted story.

The more complex story is a story of social change in the last few decades: of local shops closing and national chains taking their place. Profits made from shoppers now often flow outside of the regions they are made in. Someone living somewhere much further away is said to be much more 'productive' because he or she is good at squirreling a profit away. Utilities such as phones, water, gas and electricity are no longer locally provided. Just like newspapers and banks have become concentrated in the South, as well as the financial giants that now own most building society brands. All this makes the North appear less productive. It would be better to see it as more pillaged. And to ask in future more carefully just what is being produced in London that makes London so 'productive.'

Danny Dorling is the Halford Mackinder Professor of Human Geography, Oxford University

Executive Summary

The North East of England has come under attack in recent years for its economic dependence on the public sector. In the build-up to the 2010 general election, David Cameron cited the region as somewhere where 'the size of the state has got too big.'¹ Critics in the media have been even more trenchant.

Research from the Centre for Economics and Business Research claims that 20% of the North East's GDP takes the form of subsidy from other regions and the North East receives more in public spending than it contributes in taxes.² Research from IPPR North has helped to add some perspective to the debate, showing that the North East receives far less public funding for infrastructure than other parts of the country.³ Nonetheless, the narrative of dependency has persisted to some extent, alongside the notion that London and the South East are the engines of the UK economy, supporting poorer regions such as the North East.

This worldview overlooks the transfer of private wealth from the North East to London and the South through North Eastern household expenditure with private corporations whose head office or UK headquarters are based in South East England.

In recent decades, key sectors across the UK economy have become dominated by major national and international corporations:

➤ The so-called 'big six' energy suppliers – Centrica; E.On; EDF Energy; Npower; Scottish Power; and Scottish and Southern Energy – account for 99% of the UK's domestic electricity and gas supply.⁴

➤ The mobile phone market is dominated by 4 network providers – Everything Everywhere (33% market share); O2 (29%); Vodafone (24%) and 3 Mobile (9%).⁵

➤ The Payments Council reports that nearly 58p of every pound spent with British retailers is spent in Supermarkets.⁶ The Supermarkets also take 33p of every £1 spent on petrol.⁷

In contrast, independent stores now account for just 2.2% of the grocery sales and 3% of the fashion market.⁸ This trend has accelerated significantly since the late 1970s. De-mutualisation of building societies, privatisation of utilities, the growth of new technologies such as mobile phones and the arrival in the UK of major international chain outlets, have all increased the share of household expenditure accruing to large corporations. In the North East, there are now 106 branches of Costa Coffee, which only opened its first outlet in London in 1978, while there are 41 JD Wetherspoons pubs (first branch, 1979) and 51 McDonalds (1974).

Europe's largest shopping centre, the Metro Centre, opened in Gateshead in 1986. Around 75% of the retail outlets operating in the Metro Centre are chain stores head-quartered outside the North East. Supermarkets have also expanded significantly over the

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¹ Guardian, David Cameron targets north-east and Northern Ireland for spending cuts, 23 April 2010 via <http://www.guardian.co.uk/politics/2010/apr/23/david-cameron-paxman-squeeze>

² This is Money, London's taxes prop up the rest of the UK: One pound in every five earned in the capital funds the rest of the country, 13 February 2012 via <http://www.thisismoney.co.uk/money/news/article-2100345/Londons-taxes-prop-rest-UK-One-pound-earned-capital-funds-rest-country.html>

³ IPPR North, Still on the wrong track: An updated analysis of transport infrastructure spending, 2013 via <http://www.ippr.org/publication/55/10933/still-on-the-wrong-track-an-updated-analysis-of-transport-infrastructure-spending>

⁴ Ofgem, The Retail Market Review – Findings and initial proposals, 2011, p5

⁵ HIS iSuppli, Vodafone Bids for Return to UK's Top Wireless Ranks with Big Expenditures at 4G Auction, 20 February 2013 via <http://www.isuppli.com/media-research/news/pages/vodafone-bids-for-return-to-uks-top-wireless-ranks-with-big-expenditures-at-4g-auction.aspx>

⁶ Payments Council, The way we pay, 2013, p9

⁷ Ibid

⁸ Kantar Worldpanel, Big Four under pressure, 16 July 2013 via http://www.kantar.com/media/445345/16_07_13_kantar_worldpanel_supermarket_share_data_and_commentary.pdf and; Retail Week, Kantar Worldpanel: Clothing, footwear and accessories, 2011 via <http://www.retail-week.com/data/kantar-worldpanel-clothing-footwear-and-accessories/5025927.article>

past four decades, particularly in the convenience store sector in the aftermath of the 2007 financial crisis. There are now 44 Asda stores in the North East and 65 Tesco's.

These changes have had a profound effect on the economic life of the North East. Major national and international corporations have become increasingly dominant in sectors that attract a considerable proportion of expenditure in the North East.

For example – food and beverages, household cleaning products, toiletries, cosmetics and petrol are all purchased in supermarkets; gas and electricity is provided by major energy suppliers; chain retailers dominate the market for clothing; and the telecommunications giants provide the majority of phone, internet and communications services.

Very few major corporations that provide these products and services are based in the North East – there are just 5 FTSE 350 companies headquartered in the region – fewer than in the Channel Islands.

Corporate scandals in 2013, such as the supermarket products contaminated with horsemeat from processing plants across Europe, or the fire at a textile factory in Bangladesh that supplies Primark and Matalan, have shown the physical reach of supply chains involved in delivering products to the UK market. These examples highlight how little of a £1 spent in the North East remains in the region – products are produced overseas, flown or shipped into

the UK, stored in a distribution hub and then transported across the country by lorry. The process is co-ordinated by remote managers from a centralised headquarters.

At the same time, the share of UK's GDP allocated to workers' wages has declined sharply since the late 1970s at the expense of the share allocated to profits.⁹ So just as the proportion of North East households are spending an increasing proportion of their income with major corporations based outside the regions, those corporations are reducing the proportion of their income returned to the region in wages.

Similarly, company profits generated in the North East accrue to London, the South East and beyond in the form of generous executive pay packages; dividends; and commission for intermediaries in the financial services sector almost always based around financial centres such as the City of London.

This highlights the significant flaws with the characterisation of an unproductive North East dependent on over-generous support from London and the wider South East. It is at least as valid to argue that the North East is actually inhibited by external corporations, who use their size and power to extract significant wealth from the region on an ongoing basis, like some kind of corporate, London-based Empire extracting tribute from conquered territories.

However, the notion of an exploitative private sector transferring wealth from North

to South is rarely invoked, in comparison with how often commentators make the simplistic claim that the public sector redistributes wealth in the opposite direction.

It is vital that this is recognised as part of the public debate on re-balancing the economy. Policymakers should focus on two objectives. Firstly, supporting local businesses and supply chains, enabling them to attract a higher share of spending in the North East. Secondly, ensuring that a larger share of corporate revenues generated in the region are retained, chiefly by achieving a fairer balance between the proportion of company income awarded to executives and shareholders and that allocated to the lowest paid workers.

Introduction

⁹ Trade Unions Congress, Where have all the wages gone?, 2012 via <http://www.tuc.org.uk/tucfiles/466.pdf>

¹⁰ Guardian, David Cameron targets north-east and Northern Ireland for spending cuts, 23 April 2010 via <http://www.guardian.co.uk/politics/2010/apr/23/david-cameron-paxman-squeeze>

¹¹ Daily Mail, Welcome to Cuba UK: Areas of Britain more dependent on state cash than Castro's nation, 25 June 2009 via <http://www.dailymail.co.uk/news/article-1196182/Welcome-Cuba-UK-Areas-Britain-dependent-state-cash-Castro-nation.html>

¹² Daily Telegraph, overtaxed South needs its own party, 2 December 2012 via <http://www.telegraph.co.uk/comment/9717537/Kelvin-MacKenzie-overtaxed-South-needs-its-own-party.html>

¹³ *ibid*

¹⁴ Office for National Statistics, Regional Profiles: Economy - North East, May 2012, via http://www.ons.gov.uk/ons/dcp171780_266082.pdf

¹⁵ House of Commons Library, Public sector employment and expenditure by region, 2013, p4

¹⁶ *ibid*

¹⁷ This is Money, London's taxes prop up the rest of the UK: One pound in every five earned in the capital funds the rest of the country, 13 February 2012 via <http://www.thisismoney.co.uk/money/news/article-2100345/Londons-taxes-prop-rest-UK-One-pound-earned-capital-funds-rest-country.html>

¹⁸ IPPR North, Still on the wrong track: An updated analysis of transport infrastructure spending, 2013 via <http://www.ippr.org/>

Background – narrative of North East dependency

The North East of England has come under attack in recent years for its dependence on public spending funded by other parts of the country (chiefly London and the South East).

In the build-up to the 2010 general election David Cameron claimed that 'there are other parts of the country, including the North East' where 'the size of the state has got too big.'¹⁰ The Daily Mail has suggested the region is more dependent on state funding than Cuba.¹¹ In December 2012, the journalist Kelvin Mackenzie suggested that 'the hard-working, clever and creative people living in London and the South... are giving the rest of the nation a standard of living they can't, or won't, create for themselves.'¹² Mackenzie went on to ask of people in the North East 'why don't they live within their means, or move down here and see what it's like to be taxed until they weep?'¹³

Mackenzie is not necessarily trusted to provide a credible and balanced assessment of the UK's economic geography, but if his wild claims are asserted frequently enough (particularly in the more subtle language used by David Cameron) they begin to take hold.

Furthermore, some of the headline statistics appear to support this narrative. Public sector jobs account for 25% of employment in the North East, with the figure rising to over 33% in Newcastle and Middlesbrough.¹⁴

Research for the House of Commons Library found that the North East received £24.3 billion of spending on public services, at £9,389 per head the highest per capita of any English region.¹⁵ The public sector accounts for 59% of North East GDP, again the highest proportion in England.¹⁶

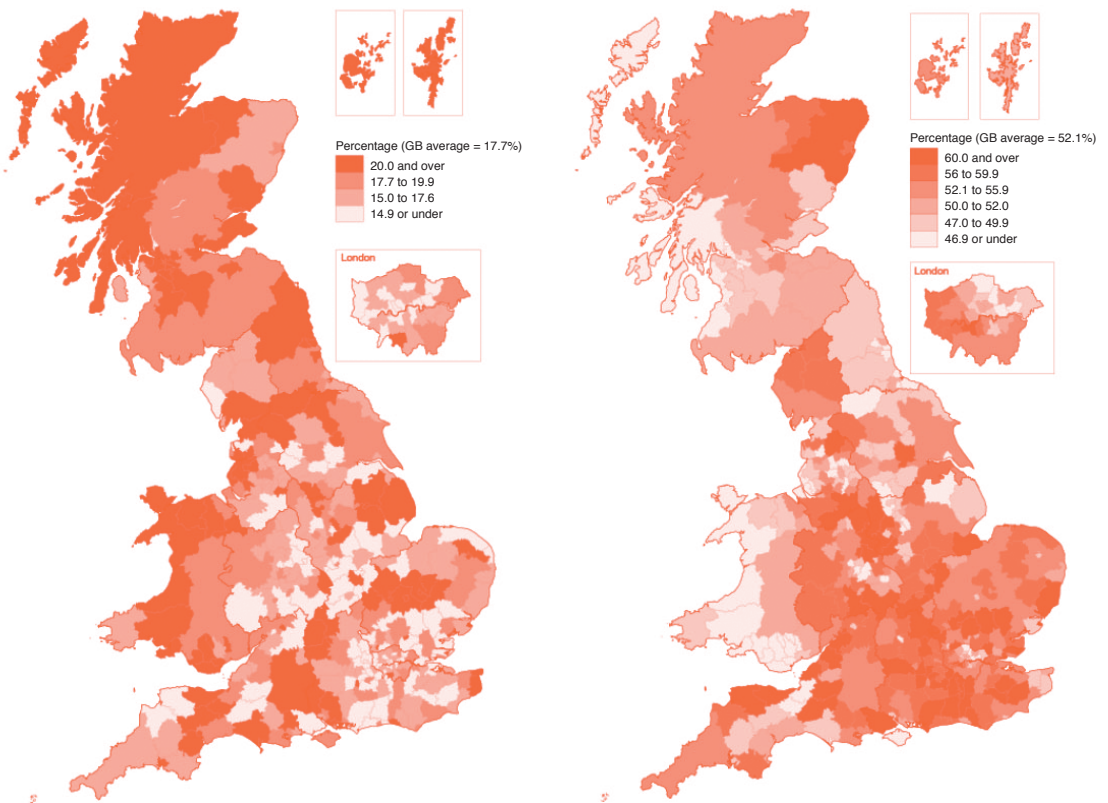
The Centre for Economics and Business Research has claimed that over 20% of the North East's GDP takes the form of subsidy from other regions, meaning the North East receives significantly more in public spending than it contributes in taxes.¹⁷

Challenging the narrative

Analysis beyond these headline figures has helped to debunk the characterisation that the situation amounts to a culture of dependency. Research into public spending on transport projects by the IPPR North think tank showed that 84% of planned spending on public transport was allocated to London and the South East.¹⁸ London received £2,600 of public spending per head on transport while the North East got just £5 per head.¹⁹ So while public spending might form a larger proportion of the North East economy, these figures suggest that the North East gets much less of the kind of government investment likely to generate growth and jobs.

Similarly, the Office for National Statistics has noted that public sector jobs are spread relatively evenly across the country, in areas like health, education and public administration, in order to serve local populations.²⁰ In the private

figure 1 Public and Private sector employment by region (2010)²¹



sector, jobs are more clustered. So again, it is less the case that a higher number of government jobs are lavished on the North East, rather that private sector employment is much lower in the region, meaning that the public sector accounts for a higher proportion of regional employment than in other parts of the country.

Nonetheless, the narrative of dependency has persisted to some extent. Sections of the media frequently repeat the notion that

London and the South East are 'the engine of the UK economy', implying that poorer regions, such as the North East, rely on their support.

This analysis ignores the transfer of private wealth from the North East to London and the South that occurs as a result of economic activity in the private sector - North East households spending their income with national or international corporations operating in the region, but based in London or the South East.

publication/55/10933/
still-on-the-wrong-track-
an-updated-analysis-of-
transport-infrastructure-
spending

¹⁹ *ibid*

²⁰ ONS, Subregional analysis of public and private sector employment, 2011 via http://www.ons.gov.uk/ons/dcp171766_241911.pdf

²¹ Daily Telegraph, Is the north really dependent on public sector jobs? Actually, it's not so simple, 17 May 2012 via <http://blogs.telegraph.co.uk/news/neilobrien1/100158424/is-the-north-really-dependent-on-public-sector-jobs-actually-its-not-so-simple/>

Re-balancing the economy

There has been considerable interest in 'rebalancing' the English economy. Political commentators from all sides are agreed on the need to create more private sector jobs and growth outside London and the South East, and in the North East in particular.

Amongst the policy measures favoured in order to deliver this re-balancing, there has been much interest in the use of public procurement to support local businesses. A study for Northumberland Council found that every £1 spent by the council with local businesses was worth £1.76 to the local economy, but the same amount spent with a national business was only worth 36p.²² Different projects in different parts of the country have reached similar conclusions – localising procurement contracts can bring economic benefits to an area.

The logic of this argument also extends to private spending. Money spent in local businesses is likely to provide a greater return to the area than that spent with national or multi-national concerns, with their suppliers, distribution and management co-ordinated remotely from a national headquarters and a substantial proportion of revenue hived off for profits and external costs.

In the North East, many grassroots campaigns have emerged in defence of local businesses and in opposition to major corporations. For example, in 2011 over 1,000 residents of the Bensham neighbourhood in Gateshead

signed a petition opposing a new Tesco store on the site of an old pub. 'Transition Town' networks dedicated to making the community more self-sufficient, by sourcing more food and fuel locally and reducing reliance on products supplied remotely, have been established in Tynedale, Durham, Teesside and Newcastle.

The location and broad appeal of these campaigns goes some way to challenging the mis-characterisation of them as niche concerns affecting only a wealthy minority. But beyond the area of public procurement, they have attracted comparatively little interest from mainstream policy-makers. Given the growth of remote, centralised private corporations, this is surprising.

²² Regeneration and Renewal, Study urges councils to buy locally, 11 March 2005 via <http://www.planningresource.co.uk/news/465268/Study-urges-councils-buy-locally/>

²³ ONS, Consumer Trends Q4 2012, March 2013 p11

SECTION 1

March of the Corporations

Extent of corporate dominance

Household expenditure accounts for about two thirds of spending in the UK economy, so the consumers' spending choices have a significant effect on how and where economic growth takes place.²³ The growing share of household incomes flowing to major corporations is well-documented. The New Economics Foundation's programme of work into 'Clone Towns' found that nearly two thirds of high streets in medium-sized towns and cities shared the characteristics of 'clone towns' dominated by homogenous, chain retail outlets, or border towns, where the chain stores operate alongside some smaller businesses.²⁴ Only 36% of high streets were judged to be 'home towns' where more than two thirds of businesses are independent.²⁵

In specific sectors, the dominance of big companies is even more startling:

➤ The so-called 'Big six' energy suppliers – Centrica; E.On; EDF Energy; Npower; Scottish Power; and Scottish and Southern Energy – account for 99% of the UK's domestic electricity and gas supply.²⁶

➤ 87% of personal current accounts in the UK are with one of the 'big five' banks – Barclays; HSBC; Royal Bank of Scotland; Lloyds; and Santander.²⁷

➤ The mobile phone market is dominated by 4 network providers – Everything Everywhere (33% market share); O2 (29%); Vodafone (24%) and 3 Mobile (9%).²⁸ These services

are received on devices produced by major corporations such as Apple, Samsung or Research in Motion (Blackberry).

➤ The Payments Council reports that nearly 58p of every pound spent with British retailers is spent in Supermarkets.²⁹ The Kantar consultancy estimated in July 2013 that independent traders accounted for just 2.2% of the groceries market, compared to a combined 82% for Tesco, Asda, Sainsbury's, Morrisons, Aldi and Lidl.³⁰

➤ The Payments Council also estimate that the Supermarkets take 33p of every £1 spent on petrol.³¹ A report from Deloitte published in December 2012 for the Department of Energy and Climate Change estimated that the unbranded petrol stations share of the retail motor fuel is around 1%.³²

➤ The Retail Week trade publication reported that as of 2011, independent clothing stores make up just 3% of the fashion market.³³ The bulk of spending takes place with big retail chains, such as Topshop, Next and H&M (29%); and department or general stores, such as Debenhams, Marks and Spencer or BHS (23%).³⁴

➤ Branded or managed pubs, such as JD Wetherspoons or the Punch Taverns chain, now make up 50% of the UK pub market.³⁵

➤ William Hill, Ladbrokes, GalaCoral and Betfred, the largest four gambling firms, account for 82% of all betting shops in the UK.³⁶ Consumer Focus identified

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²⁴ New Economics Foundation, Re-imagining the High Street: Escape from Clone Town Britain, p14
²⁵ *ibid*

²⁶ Ofgem, The Retail Market Review – Findings and initial proposals, 2011, p5

²⁷ Financial Times, Rivals sought for big five banks, 30 May 2013 via <http://www.ft.com/cms/s/0/ff25bf24-c944-11e2-bb56-00144feab7de.html#axzz2ZlcsZmvr>

²⁸ HIS iSuppli, Vodafone Bids for Return to UK's Top Wireless Ranks with Big Expenditures at 4G Auction, 20 February 2013 via <http://www.isuppli.com/media-research/news/pages/vodafone-bids-for-return-to-uks-top-wireless-ranks-with-big-expenditures-at-4g-auction.aspx>

²⁹ Payments Council, The way we pay, 2013, p9

³⁰ Kantar Worldpanel, Big Four under pressure, 16 July 2013 via http://www.kantar.com/media/445345/16_07_13_kantar_worldpanel_supermarket_share_data_and_commentary.pdf

³¹ The way we pay, 2013, p9

³² Deloitte, Study of the UK petroleum retail market: A final report for DECC, 14 December 2012, p33 via http://www.ukpia.com/Libraries/Download/UK_Petroleum_Retail_Market_Study_Final_Report_v3_STC.sflb.ashx

³³ Retail Week, Kantar Worldpanel: Clothing, footwear and accessories, 2011 via <http://www.retail-week.com/data/kantar-worldpanel-clothing-footwear-and-accessories/5025927.article>

³⁴ *ibid*

³⁵ Caterer and Hotel-keeper, UK branded restaurants to continue eating independents' market share, 25 June 2013 via <http://www.allegrastrategies.com/files/pdf-files/2013-06-26-Caterer.pdf>

seven 'major players' in the payday lending market, with one firm, Dollar Financial, providing 25% of all loans in the UK.

Corporations post-Crisis

It is important to note that, while big corporations are by no means a new phenomenon, their power and dominance of economic activity have greatly increased since the 1970s. Certain sectors have become close to oligopolies as a result.

The consolidation of the energy market around the 'big six' has developed over the past two decades, since privatisation in 1990. Prior to this, gas and electricity had been run under public ownership and managed by regional gas and electricity boards.

In the financial sector, the demutualisation of building societies in the 1980s enabled the major banks to grab a much larger share of household savings. Many of

³⁶ Gambling Commission, Industry Statistics 2009-2012, p12

table 1 Illustrates how certain major supermarkets, clothes shops and chain pubs and restaurants have proliferated over the past four decades, with a particular focus on their rapid expansion across the North East of England.

Company	Parent Company	HQ	First premises in England	Number of North East outlets (2013)
Asda	Wal-mart	Arkansas, USA	1965	44
Tesco	n/a	Hertfordshire	1932	65
McDonalds	n/a	Illinois, USA	1974	51
Costa	Whitbread	Dunstable	1978	106
JD Wetherspoon	n/a	Watford	1979	41
Pizza Hut	Yum! Brands	Kentucky, USA	1973	19
Topshop	Arcadia Group	London	1970	15
Next	n/a	Leicestershire	1982	21
H&M	n/a	Stockholm, Sweden	1976	8
Primark	Associated British Foods	London	1973	6
Boots	Alliance Boots	Zug, Switzerland	1849	164

the largest building societies were either converted or incorporated into shareholder-owned banks, including Abbey National and Alliance & Leicester (Santander); Halifax and Cheltenham & Gloucester (Lloyds); and Woolwich (Barclays).

Though not small businesses comparable with a local butcher, grocer or pub, the building societies often maintained the ties to the communities they were set up to support and, crucially, were owned by their customers, meaning profits were distributed more proportionally to where they were generated.

In the telecommunications sector, the mobile phone market scarcely existed prior to the late 1990s – there are now 82.7 million mobile phones, a figure substantially higher than the 63.7 million people who use them.³⁷

It is significant that many of these companies can trace their roots back to the late 1970s and early 1980s. This suggests that they expanded rapidly at various points between the 1980s and the present date, a period closely associated with economic globalisation and the growth of major corporations on both a national and international scale.

In the North East, the Metro Centre in Gateshead, Europe's largest shopping centre, provides a particular example of this phenomenon. Around 75% of the retail outlets operating in the Metro Centre are chain stores headquartered outside the North East. So the Metro Centre has undoubtedly strengthened the position of chain

retailers since it opened in 1986.

Even in sectors where the market leaders are longer-established, the rapid growth since the 1970s is undeniable. For example, Tesco closed 500 of its 900 UK stores in the late 1970s, but rebounded spectacularly over subsequent decades to the point that it operates 1,900 stores as of 2013.³⁸ The number of Asda stores across the UK has increased from 65 in 1989 to over 500 in 2011.³⁹ Alliance Boots, the High Street Chemist, was formed in 2007 by a merger between Boots and Alliance UniChem following a series of mergers and acquisitions by both companies over the previous three decades. Boots had become the UK's second largest optician by the late 1980s after opening their first in-store optician in 1983.⁴⁰ From 1991 up until the merger, Alliance UniChem acquired an average of 65 pharmacies per year.⁴¹ As with supermarkets, this shows that despite Boots long history, the hegemony of major corporations in the pharmacy sector has become much more pronounced in recent decades.

What the future holds

National trends, particularly since the 2007 financial crisis, suggest that major corporations are likely to further strengthen their share of the North East market in the future.

Research from CBRE states that the total size of proposed new supermarket developments in the UK in 2012 represented a 66% increase on 2007 levels.⁴² Much of this growth has been concentrated

³⁷ Ofcom, UK Communications 2013: Facts and Figures, 2013 via <http://media.ofcom.org.uk/facts/>

³⁸ Meat Trade News Daily, A look at the history of Tesco, 19 May 2012 via http://www.meatradenewsdaily.co.uk/news/070512/uk_a_look_at_the_history_of_tesco.aspx

³⁹ Asda, Asda through the years, via <http://your.asda.com/about-asda/the-history-of-asda>

⁴⁰ Boots UK, Boots History, via http://www.boots-uk.com/About_Boots/Boots_Heritage/Boots_History.aspx

⁴¹ Ibid

⁴² CBRE, UK Grocery outlets in the pipeline: Marketview, June 2013 via http://portal.cbre.eu/portal/page/portal/RRP/ResearchReportPublicFiles/Grocery_Pipeline_Jun_2013.pdf

⁴³ Daily Telegraph, Can supermarkets' local shops save the High Street? 18 July 2013 via <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10189196/Can-supermarkets-local-shops-save-the-High-Street.html>

⁴⁴ Retail Week, Analysis: Grocery space race – is it really over?, 18 July 2013 via <http://www.retail-week.com/property/analysis-grocery-space-race-is-it-really-over/5051183.article?blocktitle=In-Depth&contentID=5965>

⁴⁵ *ibid*
⁴⁶ Caterer and Hotel-keeper, UK branded restaurants to continue eating independents' market share, 25 June 2013 via <http://www.allegrastrategies.com/files/pdf-files/2013-06-26-Caterer.pdf>

⁴⁷ *ibid*
⁴⁸ Drinks Business, Camra says 26 pubs a week are closing, May 8 2013 via <http://www.thedrinksbusiness.com/2013/05/camra-says-26-pubs-a-week-are-closing/>

⁴⁹ Caterer and Hotelkeeper, Branded Chains lead growth in UK coffee shop market, 19 December 2012 via <http://www.catererandhotelkeeper.co.uk/articles/19/12/2012/346790/branded-chains-lead-growth-in-uk-coffee-shop-market.htm>

⁵⁰ *ibid*

⁵¹ Financial Times, Rivals sought for big five banks, 30 May 2013 via <http://www.ft.com/cms/s/0/ff25bf24-c944-11e2-bb56-00144feab7de.html#axzz2ZlcsZmvr>

⁵² Management Today, The bookies invasion of the High Street, 11 June 2012 via <http://www.managementtoday.co.uk/features/1135836/the-bookies-invasion-high-street/>

in the neighbourhood convenience stores, posing a particular threat to smaller businesses – Sainsbury's have opened over 500 convenience stores over the past 15 years, while Morrisons plan to open 300 between 2012 and 2015.⁴³

Tesco already operates around 1,500 convenience stores, and plans to open another 150 in 2013 alone.⁴⁴ Convenience stores also make up the bulk of the further 600 premises Tesco plans to open in the medium term.⁴⁵

Additionally, Tesco has purchased the 'Giraffe' restaurant and 'Harris and Hoole' coffee shop chains. The Allegra Strategies Consultancy estimate that branded restaurants increased their market share by 7% between 2007 and 2012, to 35%, and will add a further 8% at the expense of independents over the period to 2012.⁴⁶ Chain pubs also grew their market share by 9% between 2007 and 2012.⁴⁷ Meanwhile, The Campaign for Real Ale estimates that 26 pubs, many independent and in rural areas, close every week.⁴⁸

The growth of coffee shops, in particular, has been notably rapid, even compared to other expanding food and drink outlets. Independent stores continue to maintain a stronger market share than in other sectors, but the number of chain outlets, dominated by Costa, Starbucks and Caffè Nero, has increased tenfold in the past fifteen years.⁴⁹ Allegra's review of the sector in 2012 noted that customers at independent coffee shops had begun to gravitate to better-known brands.⁵⁰

Despite the public opprobrium that the 'big five' UK banks have faced since the financial crisis, their 87% market share in 2013 has actually increased from 71% in 2007.⁵¹

Similarly, the proliferation of betting shops and payday lenders has been a subject of considerable controversy relating to their impact on low-income households. Both markets have expanded in the post-2007 era of economic stagnation, as low-income individuals resort to speculative gambling or short-term loans to solve cash-flow problems. There has been a 13.4% increase in the number of high street bookmakers since 2008.⁵² The payday lending industry was valued at £100 million in 2004, £900 million in 2009 and £2.2 billion in 2013.⁵³ The Money Shop, the UK's largest payday lender had just one branch in 1994, but now has 273 stores across the UK, while five of the biggest seven payday lending companies in the UK are owned by US companies.⁵⁴

Online retailers

In addition to the major growing power of chain corporations, it is also important to note the rapid growth of online spending. Through file-sharing and peer-to-peer selling, the internet has to some extent facilitated access to market for small-scale entrepreneurs.

However, the top 20 UK online retailers account for two thirds of all online sales. This includes international internet-only businesses such as Asos and Amazon, as well as established chains such as Tesco, Marks & Spencer and Next.

Online transactions now account for about 10% of all retail spending and are expected to grow to 15% by 2018.

While major chains such as Woolworths, Jessops, Blockbuster and HMV have been the most famous casualties of the growth in online shopping, the effect on small businesses has arguably been even more pronounced.

As internet retail has grown over the past two decades, the UK has lost over 100,000 small shops.⁵⁵ The rural shops alliance claimed in 2009 that over 1,000 rural shops and village pubs close every year.⁵⁶ Even before the onset of the 2007 financial crisis, the Institute for Grocery Distribution found that nearly one third of small shops went bust between 2000 and 2006.⁵⁷

Impact on UK economy

Taken together these changes have had a profound effect on the economic life of the UK. Certain sectors dominated by a small number of large corporations, such as gambling, payday lending, mobile phones and internet shopping, have grown rapidly. At the same time, large corporations have also increased their dominance of more established sectors, such as fuel, groceries, clothing and banking. All of these national developments have regional significance for the North East

⁵³ Union News, Payday lender shop pops up in Parliament as union backs Bill, 11 July 2013 via <http://union-news.co.uk/2013/07/payday-lender-shop-pops-up-in-parliament-as-union-backs-bill/>

⁵⁴ Centre for Labour and Social Studies, Boom-time for legal loan sharks: How deregulation, market failure and a crisis in wages has led to the rise of payday lenders, 2013, p8

⁵⁵ Andrew Simms, Tescopoly: How one shop came out on top and why it matters, 2007, p72

⁵⁶ BBC News, Threat to village pubs and shops, 22 June 2009 via <http://news.bbc.co.uk/1/hi/uk/8111736.stm>

⁵⁷ Tescopoly, p72

SECTION 2

Wealth extraction from the North East

Geography of corporations

If these national trends are replicated across the North East then it seems likely that an increasing proportion of North East household income will eventually accrue to major corporations at the expense of local businesses. The region is likely to be particularly affected by the growing dominance of major corporations, with so few having significant roots in the North East. There are just 5 FTSE 350 companies based in the region - fewer than in the Channel Islands.

The overwhelming majority of banks; supermarkets; energy suppliers; pub and restaurant chains; and other high street retailers operating in the North East are either based in London and the South East or they are part of international corporations based overseas. In the latter case, most foreign companies operating in the UK tend to establish their national headquarters in London or the South East

Of the 'big five' banks, for example, only RBS (Edinburgh) and Santander (Spain) are based outside London. The highly-paid investment bankers at both organisations mainly work in London or foreign financial centres. Four of the 'big six' energy suppliers (E.On, EDF, Scottish Power and Npower) are subsidiaries of foreign companies – the others are based in South East England (Centrica) and Scotland (SSE). The UK mobile phone market is also largely run by overseas corporations – of the four largest network providers only Vodafone (based in Berkshire) is

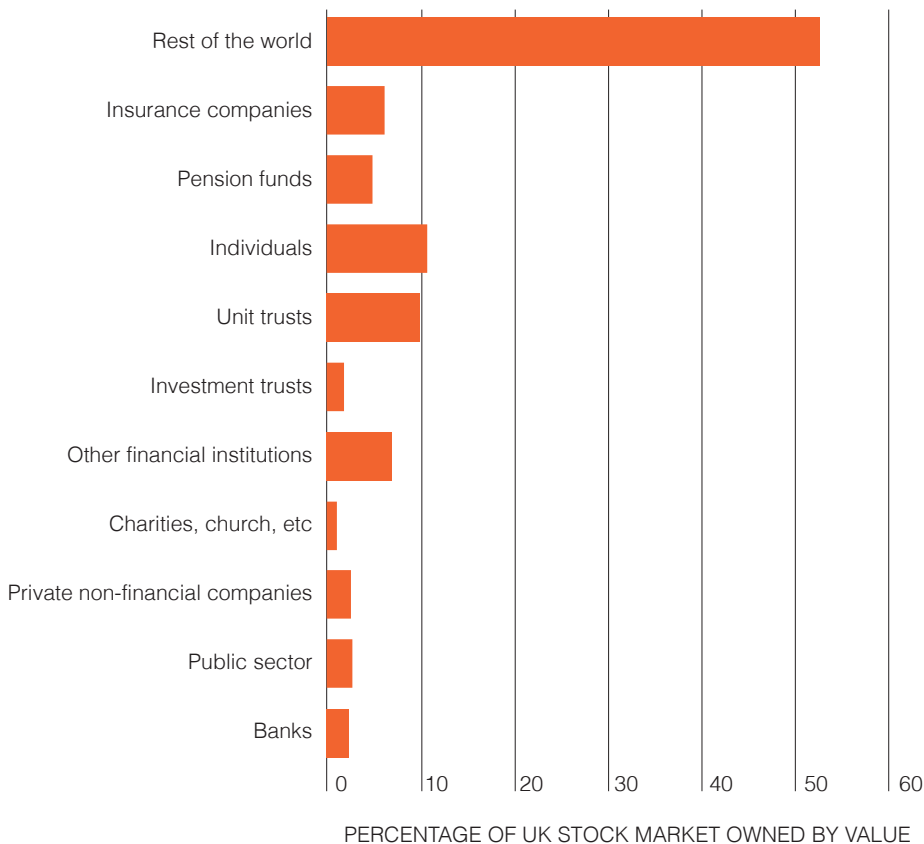
a UK company. The companies making mobile phone devices are also largely international – for example Apple (North America) or Sony and Samsung (Asia).

In addition to the highly-paid executives of major corporations, the 'investment chain' is largely located in the South East. The Financial Services Industry, so concentrated in the City of London that the term 'the city' is synonymous with the sector, includes the insurance providers, investment banks and wealth funds that invest in the UK's major corporations and to whom their profits ultimately accrue. The City also hosts the multitude of fund managers, analysts and advisers who manage these investments and receive a proportion of profits generated in commission.

Increasingly, these financial services professionals work on behalf of major overseas investors. Table 3 shows how share ownership in UK listed companies has changed since the 1960s, with foreign investors accounting for an increasingly high proportion of total shareholdings relative to UK based institutional investors (for example, pension funds) and small-scale individual investors.

Therefore, much of the wealth earned by North East households and then spent in the region is subsequently transferred to London, the South East and beyond in the form of generous executive pay packages; company profits; and commission for intermediaries in the financial services sector.

figure 2 Share ownership of UK listed companies



Household expenditure in the North East

This is borne out by analysis of the household spending in the North East. According to the Office of National Statistics the average household in the region spends £384.20 a week.⁵⁸

Beneath the headline figures, ONS also provide a more detailed itemisation of the average North East weekly household spend.

The below sample household budget, based on typical spending patterns in the North East, as recorded by ONS, shows that each household in the region sends hundreds of pounds out of the North East every week in spending on essential items alone.

For each category, it is likely that corporations based outside the region receive nearly all the expenditure – food and beverages, household cleaning

⁵⁸ ONS, Family Spending, 2012 Edition, 2012, p6 via http://www.ons.gov.uk/ons/dcp171766_285895.pdf

products, toiletries and cosmetics and petrol are all purchased in supermarkets; gas and electricity is provided by major energy suppliers; chain retailers dominate the market for clothing; and the telecommunications giants provide the majority of phone, internet and communications services.

table 2 A typical North East weekly household budget⁵⁹

Food & beverages	£45.70
Petrol/diesel	£20.30
Gas & Electricity	£19.60
Water	£6.60
Clothing	£17.70
Insurance	£12.10
Phone, internet & communications	£11.10
Household cleaning products	£5.10
Toiletries & cosmetics	£8.70

These figures do not include smaller, non-essential items such as cigarettes and alcohol (on which the average North East household spends £11.30 a week, according to the ONS); gambling (£4); or books and newspapers (£5). Nor do they cover one-off purchases and luxury items, such as new vehicles (averaged out to £15.30 per week); package holidays (£13.70); furniture and household appliances (£18.80); electronics (£6.50); and trips to pubs, restaurants and takeaways (£28.50).

Again, many of these products are branded goods, produced and then sold by big corporations not based in the North East. Therefore, much of the income earned in the North East quickly exits the region.

In addition to the general increase in the dominance of corporations in key sectors, further qualitative analysis of consumer spending,

Box 1: Sample expenditure for one Newcastle household

Case study: Our research found that it is possible for North East residents to direct their monthly expenditure to big businesses in its entirety, after housing and council tax.

Monthly expenditure for one participating shop assistant, based in Newcastle, with two school-aged children and take-home pay of around £700 per month, was as follows:

- > **£55** bus pass (Stagecoach)
- > **£170** groceries, main shop (Asda)
- > **£60** snacks and additional groceries (Poundland and NISA)
- > **£30** clothes (Simply Be)
- > **£15** mobile phone (EE)
- > **£25** takeaway (Dominos)
- > **£40** TV and internet (TalkTalk)*
- > **£120** Gas and Electricity (Npower)*
- > **£40** Water (Northumbrian Water)*

* Shared with partner, in addition to £490 housing and council tax expenditure

⁵⁹ Based on ONS, Family Spending, 2012 Edition, 2012, Table A35 via http://www.ons.gov.uk/ons/publications/re-reference-tables.html?newquery=*&newoffset=50&pageSize=25&edition=tcn%3A77-267317

examining the spending habits of a number of households in the region (see box 1), points to the same conclusion.

Box 2: How North East households spend their money

As part of the research for this project, the High Pay Centre followed the spending habits of 20 low-middle income households from across the North East - including families, older people and single young people – monitoring their spending habits, and the proportion of their expenditure spent with chain stores, and conducting interviews discussing their spending choices

The findings were striking. Participants estimated that around 90% of their expenditure was with major companies, mainly on food and bills (as demonstrated by the ONS figures). After analysing spending over a month, this figure was broadly confirmed, with corporations such as Asda, NPower and Primark particularly prominent.

Cost and convenience were, as expected, cited as the most important factors in shaping these habits. For books, music, DVDs and even clothes, online shopping was the preferred option for the same reasons. It was suggested that participants ‘might choose a small business if there was a choice between a big one and a small one offering the same price, but would never spend more money just to support a local company.’

In addition, it was repeatedly noted that the omnipresence of supermarkets, in particular, at neighbourhood level, plus the dominance of chains in shopping centres and commercial districts removed the option of shopping locally anyway.

This reflects the negative views that participants had of large companies. As one participant stated ‘they only want to make as much money as possible from you – especially ones like banks and energy companies or your mobile phone where you can’t just shop somewhere else.’ The big companies dominate people’s spending habits ‘because they’re bigger and more powerful and at the moment you can’t afford to go to farmer’s markets and places like that’ rather than because they offer brilliant products/services per se.

⁶⁰ ONS, Annual Survey of Hours and Earnings, 2012 provisional results, 2013 via <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-280149>

⁶¹ ONS, Real wages fall back to 2003 levels, 13 February 2013 via <http://www.ons.gov.uk/ons/rel/mro/news-release/real-wages-fall-back-to-2003-levels/realearn0213.html>

⁶² Manifest/MM&K, Manifest/MM&K Executive Director Total Remuneration Survey 2013, p41

⁶³ As Arcadia Group is a private company not listed on the stock exchange, they are not required to publish Sir Philip Green's pay as Chief Executive

Pay at the top of major corporations

The average full time worker in the North East was paid £23,000 in 2012.⁶⁰ Wages across the country remain the same, in real terms, as in 2003.⁶¹ Many North East-based employees of the major corporations operating in the region are paid even less – shop assistants, bank cashiers, waiters and baristas and supermarket workers are not paid significantly above the minimum wage of £6.31, equivalent to a salary of about £13,125 (based on a 40 hour working week).

The tight budgets of North East households and the low pay for the ordinary employees of major

corporations, contrasts with the executive pay packages awarded to their executives. The average CEO of a FTSE 100 company was paid £4.3 million in 2012.⁶² This equates to roughly 187 times the average pay package for an ordinary worker in the North East, or 328 times the annual pay of someone earning the adult minimum wage.

While pay for ordinary workers has stagnated since 2003, pay awarded to CEOs has increased – in real terms – over the same period by more than a fifth.

Selected pay packages for some of the biggest corporations operating in the North East are detailed in table 3.

table 3 CEO pay for major corporations operating in the North East

CEO	Organisation	Sector	Pay
Dalton Phillips	Morrisons	Supermarket	£1.1 million
Philip Clarke	Tesco	Supermarket	£1.2 million
Michael Duke	Wal-mart (owner of Asda)	Supermarket	£13.1 million
Peter Terium	RWE (owner of Npower)	Energy	£3.2 million
Sir Philip Green	Arcadia (owner of Topshop, Burtons & other high street stores)	Clothing	£3.3 billion estimated wealth ⁶¹
Ian Livingstone	BT	Communications	£9.1 million
Vittorio Colao	Vodafone	Communications	£11 million
Jeremy Darroch	Sky	Broadcasting	£7.3 million
Don Thompson	McDonalds	Fast Food	£8.6 million

The huge pay differential between ordinary workers in the North East, on the one hand, and the remote CEOs of companies operating in the region, on the other, comes despite the fact that the revenue from which CEOs are paid is generated by low and middle income households in the North East and elsewhere.

Wealth extraction from the North East

It might be argued that this is a simplistic narrative – profits and executive pay do not account for the entirety of a company's revenue and companies operating in the North East but based outside the region still provide jobs for North Easterners.

However, research for the OECD has noted that 'foreign direct investment' often fails to generate significant benefits for the local economy as a result of 'globally-integrated business models' in which individual corporate 'branch plants' have just one function in 'a vertically integrated supply chain.'⁶⁴

External companies operating in a particular region do not necessarily utilise local suppliers or create business on their behalf. The success of national or multi-national retailers is partly attributable to their ability to achieve economies of scale on a national or multi-national basis. For example, a supermarket or clothing store with multiple outlets in the North East and elsewhere is unlikely to initiate individual partnerships with local small businesses, rather than work with a larger remote producer supplying the entire company.

A number of corporate scandals have demonstrated the extent of supply chains involved in delivering products to the UK market. In early 2013, a number of supermarkets were forced to admit that they had inadvertently sold customers food contaminated with traces of horse meat from processing plants across Europe. Later in the year, a major fire at a textile factory in Bangladesh used by Primark and Matalan highlighted the volume of clothing sold in the UK that is made in Asia. The dangerous working conditions also invoked comparisons with the factories in the Far East, where Apple and other electronics companies manufacture electrical goods for sale in advanced economies.

These examples highlight how little of a £1 spent in the North East remains in the region – products are produced overseas, flown or shipped into the UK, stored in a distribution hub and then transported across the country by lorry. The process is co-ordinated by remote managers from a centralised headquarters.

The costs associated with production and distribution accounts for much of the bill that a North East resident might receive for their energy, groceries or clothing, for example. By contrast, the commentator Andrew Simms estimates that in the case of Tesco, for example, staff costs account for just 7% of turnover, meaning that only a tiny proportion of money spent at Tesco stores in the North East goes towards supporting jobs in those stores.⁶⁵

⁶⁴ OECD, Embedding Foreign Direct Investment via <http://www.oecd.org/gov/regional-policy/2489910.pdf>
⁶⁵ Tescopoly, p163

Simms's reference to the low-pay in the retail sector hints at a further way in which big companies have exacerbated the problem of value extraction from the North East. Research for the TUC illustrates how the 'wage share' in the UK has declined since the 1970s. The proportion of national income accounted for by people's wages between 1977 and 2008 fell from 59% of national income to 53%, while the share of profits in national income rose from 25% to 29% over the same time period.⁶⁶

The TUC report adds that if the proportion of wages earned by the richest 1% was discounted, then the wage share would be even smaller.⁶⁸ This has not happened by accident. The Economist Gavyn Davies notes that corporate earnings throughout the developed economies (where the decline in the wage share has

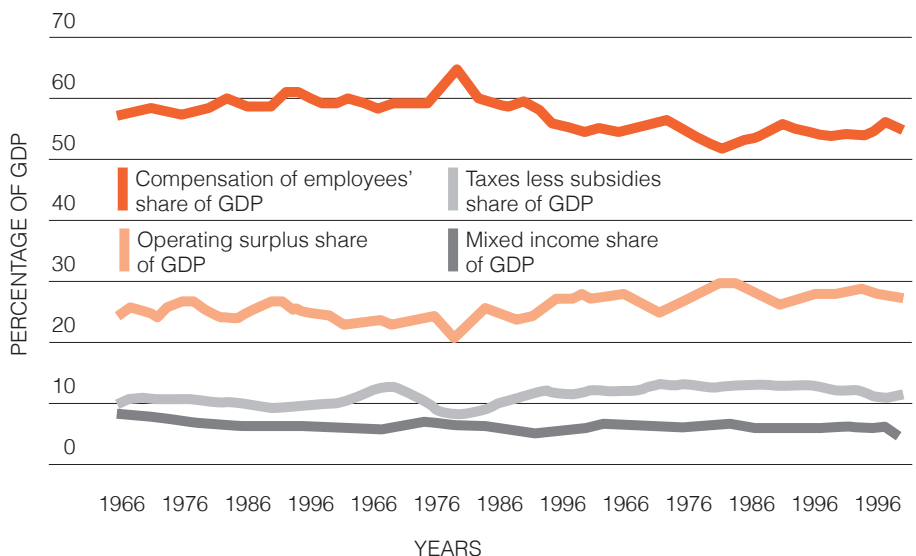
mirrored the UK) would be about a third lower if the wage share had remained constant as a proportion of national income.⁶⁹

Instead, corporations have engineered a shift to a centralised private sector economy in which they hold down the wages of their employees, while increasing the rewards for a tiny elite of executives and financiers.

The TUC highlights the effect that this has had on income inequality. The share of income going to the richest 0.1%, 0.5% and 1% has increased rapidly since the 1980s.

Given that the overwhelming majority of people in these groups are based in the South East, this has also heightened regional inequalities, significantly affecting the North East, in particular.

figure 3 Profits versus wages in the UK⁶⁷



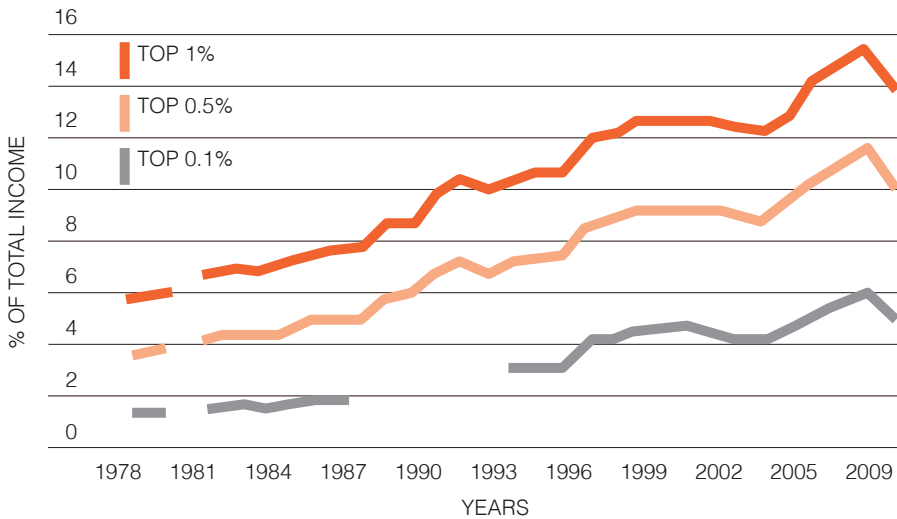
⁶⁶ Trade Unions Congress, Where have all the wages gone?, 2012 via <http://www.tuc.org.uk/tucfiles/466.pdf>

⁶⁵ Trade Unions Congress, How to boost the wage share, 2013 via <http://www.tuc.org.uk/tucfiles/611/How%20to%20Boost%20the%20Wage%20Share.pdf>

⁶⁸ *ibid*

⁶⁹ Financial Times, The real underpinning for equities, 11 June 2013 via <http://blogs.ft.com/gavyn-davies/2013/06/11/the-real-underpinning-for-equities/>

figure 4 Rising inequality UK⁷⁰



In recent decades, people in the region have spent a higher proportion of their income with external corporations. Conversely, the corporations have reduced the proportion of their income returned to the region in wages. The net effect is to further enrich the rich and impoverish the poor, and to deepen the North-South divide.

While it should be acknowledged that corporations do provide jobs for people in the North East, the level of pay and the distant supply chains and non-regional headquarters mean that the greater proportion of money spent with these businesses leaves the regional economy. This outflow of wealth undermines the region's ability to develop a balanced economy and invest in regional priorities.

Low-paying private sector jobs also constrain the size of the potential tax base in the North East, contributing

to the impression that the regional economy is unbalanced in favour of the public sector, and subsidised by more prosperous parts of the country (this in turn means that the North East is less well-placed to argue for the proportionate amount of infrastructure spending that it is currently denied).

The characterisation of an unproductive North East dependent on over-generous support from London and the wider South East has been repeated frequently in the media. However, the alternative interpretation is seldom put forward. It is at least as valid to argue that the North East is actually inhibited by external corporations, who use their size and power to extract significant wealth from the region on an ongoing basis, like some kind of corporate, London-based empire extracting tribute from conquered territories.

⁷⁰ How to boost the wage share

Conclusion

Towards a solution

Developing an appropriate policy response to the hegemony of chain corporations is difficult, partly because the growth of chains is ostensibly a response to people's demand for cheap consumer goods.

There is a plausible argument that it would be patrician and illiberal to prevent big corporations from meeting this demand. Critics of big corporations (and consumerism more generally) have been accused of snobbery, with the implication being that they are effectively telling people they have the wrong kind of aspiration. Equally, however, it is valid to question whether demand for cheap products results from unfairly low incomes – and to what extent demand for consumer goods is created artificially by corporate power, aggressive advertising and the veneration of material wealth in popular culture.

It is vital that the increasing extraction of wealth from depressed regions to the elite centre is recognised by policymakers.

The increasing dominance of major corporations in the North East represents a significant and ongoing change to the regional economy that has not been widely discussed in comparison with, for example, the decline of manufacturing or the growth of regional inequalities. This is despite the number of challenges it poses - including the potential role that corporations with huge pay differentials between their highest and lowest earners have played in exacerbating regional inequalities and creating geographical

imbalances within the economy. The likelihood of re-balancing the economy and reducing the relative size of the public sector in the North East is diminished when private sector spending immediately exits the region, rather than circulating amongst local businesses creating a stronger multiplier effect.

Policy prescriptions should focus on two objectives.

Firstly, supporting local businesses and supply chains, enabling them to attract a higher share of spending in the North East.

Developing a more entrepreneurial culture in the region will be critical to this process – the IPPR North Northern Economic Futures Commission identifies four key policy areas of finance; advice; education/training; and a welfare system that accounts for the low incomes of those running start-up companies where policymakers could improve support for small and medium –sized businesses.⁷¹ Equally, measures to raise awareness of the benefits of shopping locally and facilitating spending with smaller businesses - the 'multiplier effect' - should be considered. Transition Town movements in Totnes, Lewes, Brixton and other communities have pioneered local currency initiatives as a means of ensuring that money continues to circulate locally. North East councils could support similar initiatives in their region. More generally, it is vital that policymakers comprehend multipliers and put them at the heart of their economic vision for their areas.

⁷¹ IPPR North, Northern Economic Futures Commission: Northern Prosperity is national prosperity, 2013, p91-95

An understanding of what spending takes place with which businesses and what proportion of revenue these businesses spend locally is vital to local economic development. The 'Local Multiplier 3' formula that the New Economics Foundation has pioneered for public procurement looks at what proportion of public money awarded to an external organisation is spent locally by the contracted body, and in turn by the local organisations who supply them, in order to compare the local economic value of spending choices. This could provide a model for analysis of private spending.

At national level, the planning system could allow local authorities to differentiate between small and large businesses, enabling them to reserve a certain amount of commercial space in their areas for local businesses only. The Labour Party have also argued for the state-owned RBS to be split up into a series of regional banks, ensuring that savers deposits are used to support investment in their own region.⁷²

Secondly, ensuring that a larger share of corporate revenues generated in the region are retained.

This is a more straightforward policy objective. Again, real pressure on big corporations to localise supply chains and on North East residents to make this a factor in their consumption choices will be important. Primarily, though, it requires a fairer balance between the proportion of company income awarded to executives and shareholders and that allocated to ordinary workers.

⁷² Money Marketing, Labour calls on Govt to examine RBS regional break-up, 25 September 2013 via <http://www.moneymarketing.co.uk/news-and-analysis/labour-calls-on-govt-to-examine-rbs-regional-break-up/2000833>. article

