Urban policy and economic performance

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Introduction

- Resurgent cities may offer an effective strategy for delivering regional growth …
- … but this may widen spatial disparities
- Provide some evidence and analysis on both
## Recent city population growth

<table>
<thead>
<tr>
<th>Place</th>
<th>Region</th>
<th>1991-1997</th>
<th>2001-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td></td>
<td>0.24</td>
<td>0.46</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>0.44</td>
<td>0.44</td>
</tr>
<tr>
<td>Birmingham</td>
<td>West Midlands</td>
<td>-0.20</td>
<td>0.26</td>
</tr>
<tr>
<td>Stoke</td>
<td>West Midlands</td>
<td>-0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>Manchester</td>
<td>North West</td>
<td>-0.25</td>
<td>0.32</td>
</tr>
<tr>
<td>Liverpool</td>
<td>North West</td>
<td>-0.51</td>
<td>-0.13</td>
</tr>
<tr>
<td>Birkenhead</td>
<td>North West</td>
<td>-0.54</td>
<td>-0.16</td>
</tr>
<tr>
<td>Newcastle</td>
<td>North East</td>
<td>-0.16</td>
<td>0.08</td>
</tr>
<tr>
<td>Sunderland</td>
<td>North East</td>
<td>-0.28</td>
<td>-0.32</td>
</tr>
</tbody>
</table>
A (very basic) international comparison
## Drivers of future city growth

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>Agglomeration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average <em>all</em> manufacturing</td>
<td>0.077</td>
</tr>
<tr>
<td>Publishing, printing reproduction of media</td>
<td>0.105</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.137</td>
</tr>
<tr>
<td>Average <em>all</em> services</td>
<td>0.197</td>
</tr>
<tr>
<td>Motion picture, video and TV</td>
<td>0.222</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>0.224</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>0.251</td>
</tr>
<tr>
<td>Public services</td>
<td>0.292</td>
</tr>
<tr>
<td>Business and management consultancy</td>
<td>0.298</td>
</tr>
<tr>
<td>Transport services</td>
<td>0.325</td>
</tr>
<tr>
<td>Manufacture radio, television and communication</td>
<td>0.382</td>
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</tbody>
</table>
Market signals
### Determinants of productivity differences

<table>
<thead>
<tr>
<th>Variable</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urbanisation</td>
<td>0.0894</td>
<td>0.0730</td>
<td>0.0679</td>
<td></td>
</tr>
<tr>
<td>Skills (NVQ3)</td>
<td></td>
<td>4.442</td>
<td></td>
<td>6.433</td>
</tr>
<tr>
<td>Skills (NVQ4)</td>
<td></td>
<td>10.7624</td>
<td></td>
<td>9.278</td>
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<tr>
<td>Airport</td>
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<td>-0.00688</td>
<td></td>
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<tr>
<td>Motorway</td>
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<td></td>
<td>-0.00452</td>
<td></td>
</tr>
<tr>
<td>Station</td>
<td></td>
<td></td>
<td>0.00818</td>
<td></td>
</tr>
<tr>
<td>Port</td>
<td></td>
<td></td>
<td>-0.0126</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>285809</td>
<td>285809</td>
<td>285809</td>
<td>285809</td>
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<tr>
<td>R-squared</td>
<td>0.897</td>
<td>0.898</td>
<td>0.899</td>
<td>0.899</td>
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</tbody>
</table>
Productivity Differences

London
Bristol
Glasgow
Edinburgh
EoE region
Liverpool
Manchester
Leeds-Brad
SW region
WM region
EM region
NW region
Birmingham
Newcastle
NE region
Cardiff
Yorkshire
Scotland
Sheffield
Wales
Productivity differences (controlling agglomeration; skills)
Productivity differences (controlling agglomeration; skills; transport)
Sector evidence

- Role for “key sectors”?
- Very difficult to be certain about an area's relative position in any industry
  - Value of “local knowledge”?
- More confidence about general (e.g. ranking of industry) than location-sector specific
- Urbanisation results stronger than localisation
- Very difficult to identify what other factors (e.g. skills, transport) matter in what ways for specific sectors
<table>
<thead>
<tr>
<th>Location</th>
<th>NVQ 3</th>
<th>NVQ 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban I</td>
<td>0.0679</td>
<td></td>
</tr>
<tr>
<td>Urban II</td>
<td></td>
<td>0.0957</td>
</tr>
<tr>
<td>Local</td>
<td>-0.0281</td>
<td></td>
</tr>
<tr>
<td>Skills (NVQ3)</td>
<td>6.434</td>
<td>6.218</td>
</tr>
<tr>
<td>Skills (NVQ4)</td>
<td>9.278</td>
<td>9.91</td>
</tr>
<tr>
<td>Airport</td>
<td>-0.0069</td>
<td>-0.0056</td>
</tr>
<tr>
<td>M-way</td>
<td>-0.0045</td>
<td>-0.0038</td>
</tr>
<tr>
<td>Station</td>
<td>0.00818</td>
<td>0.00721</td>
</tr>
<tr>
<td>Port</td>
<td>-0.0126</td>
<td>-0.0134</td>
</tr>
<tr>
<td>Obs</td>
<td>285809</td>
<td>285775</td>
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</tbody>
</table>
Findings

- City-regions outside of SE less productive
- Certain cities (e.g. Manchester) lower disadvantage
- Access to economic mass, skills, transport matters
- Between region and CR: economic mass and skills
- Skills explain large part of gap with SE
- Transport networks small role. Important in CR
- Clustering not very important
Some tentative conclusions

- International comparison suggests second tier cities in the UK may be too small
- Due to changing structure of the economy, appropriate size of these second tier cities is probably growing
- Market price signals indicate that certain cities are preferred by both households and firms.
Agglomeration and spatial policy

- High productivity offset by high costs of living.
- Productivity differences not sufficient for focus on one location
  - Efficiency: non-linearity in net benefits (no evidence)
  - Equity: Individuals unable to respond to differences
- Reducing cost of living and producing in high productivity locations
  - Best spatial policy for realising benefits?
  - Equity effects are more complicated (Aggregate gains; movers; commuters)
Policy and growth I

- Demand skills
  - Relocation of public sector jobs (pay?)
  - Planning system suitable business premises
  - Infrastructure bottlenecks
  - Project financing (is this a problem?)

- Supply skills
  - Amenities (evidence?; focus public good)
  - Housing and transport demands
  - No particular emphasis SMEs / sectors
Policy and growth II

- Land use planning $\rightarrow$ living costs
  - Dwelling types & locations respond to demand
  - National planning (mixed comms; brownfield)

- Transport
  - Responsive & based on reasonable projections
  - Congestion charging
  - Transport objectives first (social deprivation?)

- Plans do not deliver housing people want in places they want to live and fail to allow for the journeys they want to make.
Policy and growth III

- Policy should *not* be directly concerned with sectoral composition.
  - Benefits of clusters (too big or too small?)
  - Role cluster policy overstated (1/750 competitive clusters created by policy)
  - Diversification matters more for innovation
  - Coordinating role (fixed upfront costs)
  - Overall no evidence that skills, innovation, housing or transport policy need strong sectoral focus.
“Spreading” the benefits

- Pre-recession growth reduced worklessness in core and neighbour LA.
- Impact on deprivation of growth depends how achieved.
  - Direct impact by targeting poor individuals
  - Attracting/retaining skilled workers has indirect benefits but direct costs
Linkages – within the city

- The benefits of mixed communities?
  - Evidence inconclusive
  - Sorting limits impact
  - Trade-off between attracting skilled labour and mixing communities?

- Benefits across communities?
  - Some evidence that unskilled paid more in cities with higher skilled
  - Direct benefits of increased employment opportunities
Linkages across cities I

- Firms buy and sell goods and services across space
  - Increased demand for firms elsewhere
  - Cheaper inputs for firms elsewhere
  - More competition
Linkages across cities II

- People and firms move to resurgent city
  - Rising wages and prices in growing city
    - Some workers wages (e.g. teachers) don’t respond
    - Some outside labour market on fixed benefits
    - Land owners gain from rising prices
  - Falling wages and prices in shrinking city
- Commuting dampens effects and extent to which mobile people benefit from improvements in other places
People versus places

- Overall benefits of people who move, or commute, to resurgent city *may* outweigh loses to people not willing/able to do so.
  - Policies (e.g. local wage variation) can help offset this

- New evidence needed to quantify gains and loses to different people in different places
Why do spatial differences matter?

- Places with higher productivity produce more
  - Offset by costs, so differences in real income small?
- In presence of market failures distribution of economic activity can be sub-optimal
  - But may require more or less uneven development
- Resources flow to places with higher productivity
  - Feels better to be in a growing place
  - Some people are immobile (old; social housing)
- Politics
Conclusions

- Resurgent cities may offer an effective strategy for delivering regional growth …
- … but this may widen spatial disparities
- Whether we should worry about this depends on impacts on people not places
- Not a view shared by constituency based policy makers!
Disclaimer

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