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

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Recent city population growth

		Annual growth (%)	
Place	Region	1991-1997	2001-2005
Great Britain		0.24	0.46
London	London	0.44	0.44
Birmingham	West Midlands	-0.20	0.26
Stoke	West Midlands	-0.05	0.04
Manchester	North West	-0.25	0.32
Liverpool	North West	-0.51	-0.13
Birkenhead	North West	-0.54	-0.16
Newcastle	North East	-0.16	0.08
Sunderland	North East	-0.28	-0.32

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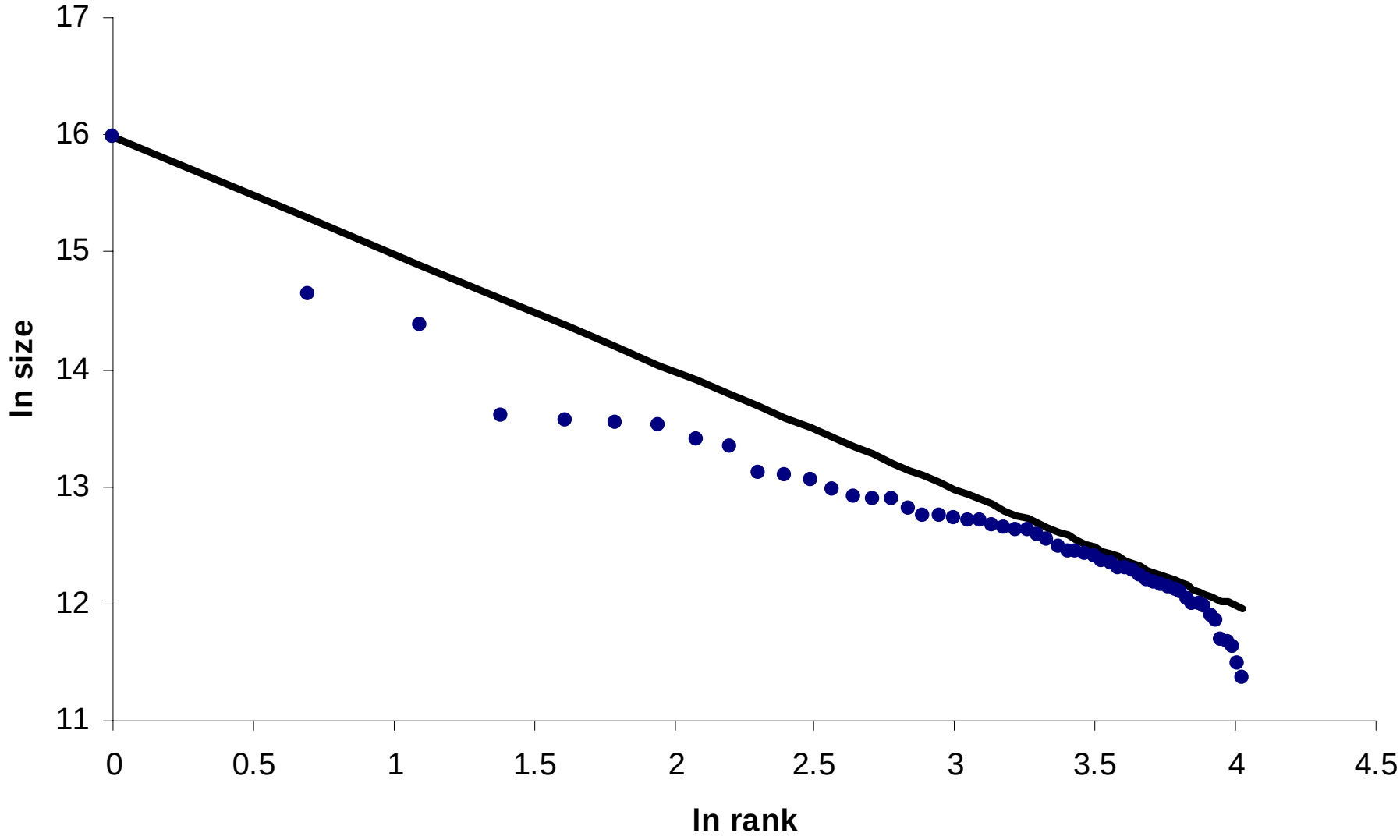
A (very basic) international comparison



Drivers of future city growth

Industry Group	Agglomeration
Average *all* manufacturing	0.077
Publishing, printing reproduction of media	0.105
Advertising	0.137
Average *all* services	0.197
Motion picture, video and TV	0.222
Hotels and restaurants	0.224
Finance and insurance	0.251
Public services	0.292
Business and management consultancy	0.298
Transport services	0.325
Manufacture radio, television and communication	0.382

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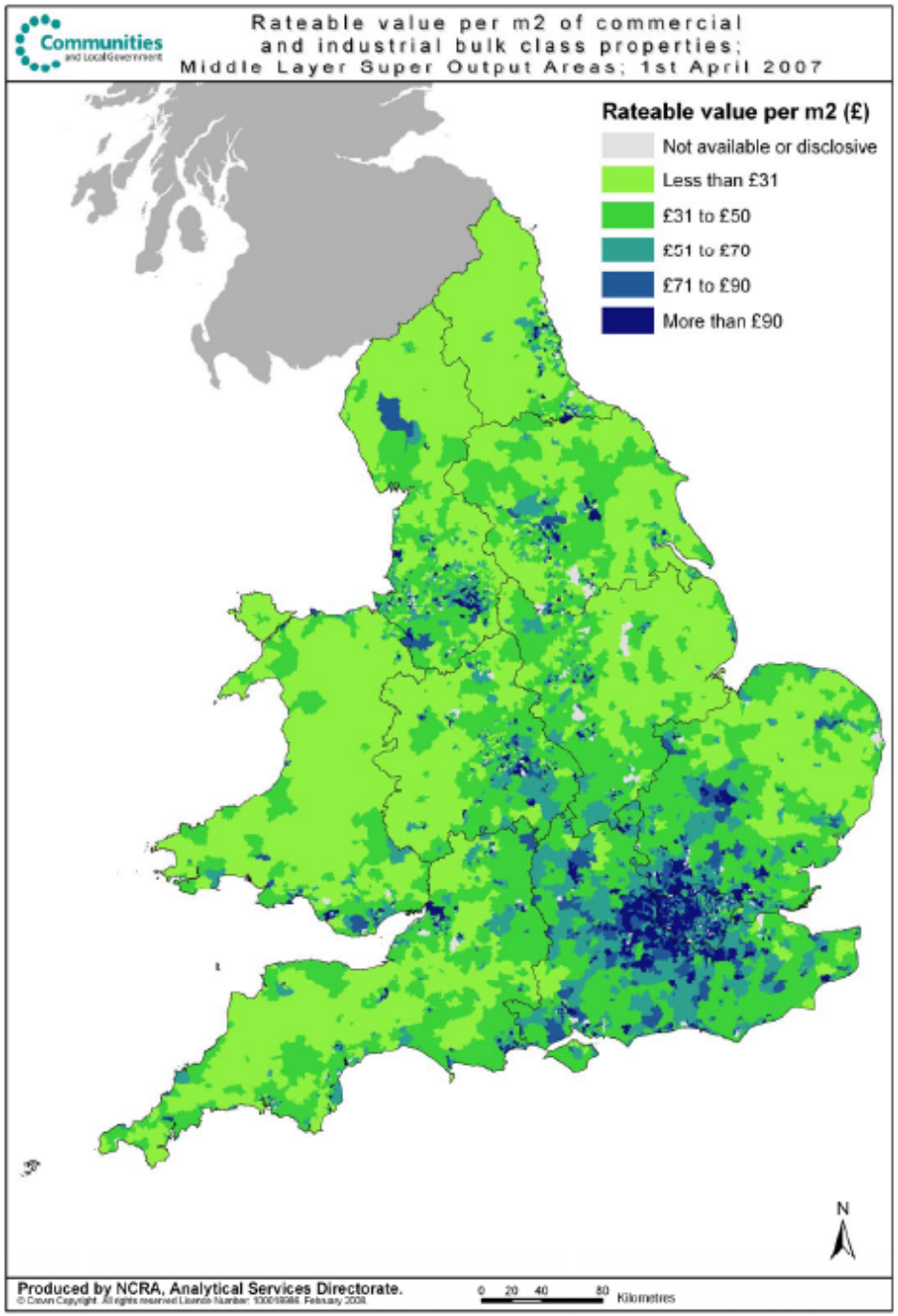

Market signals

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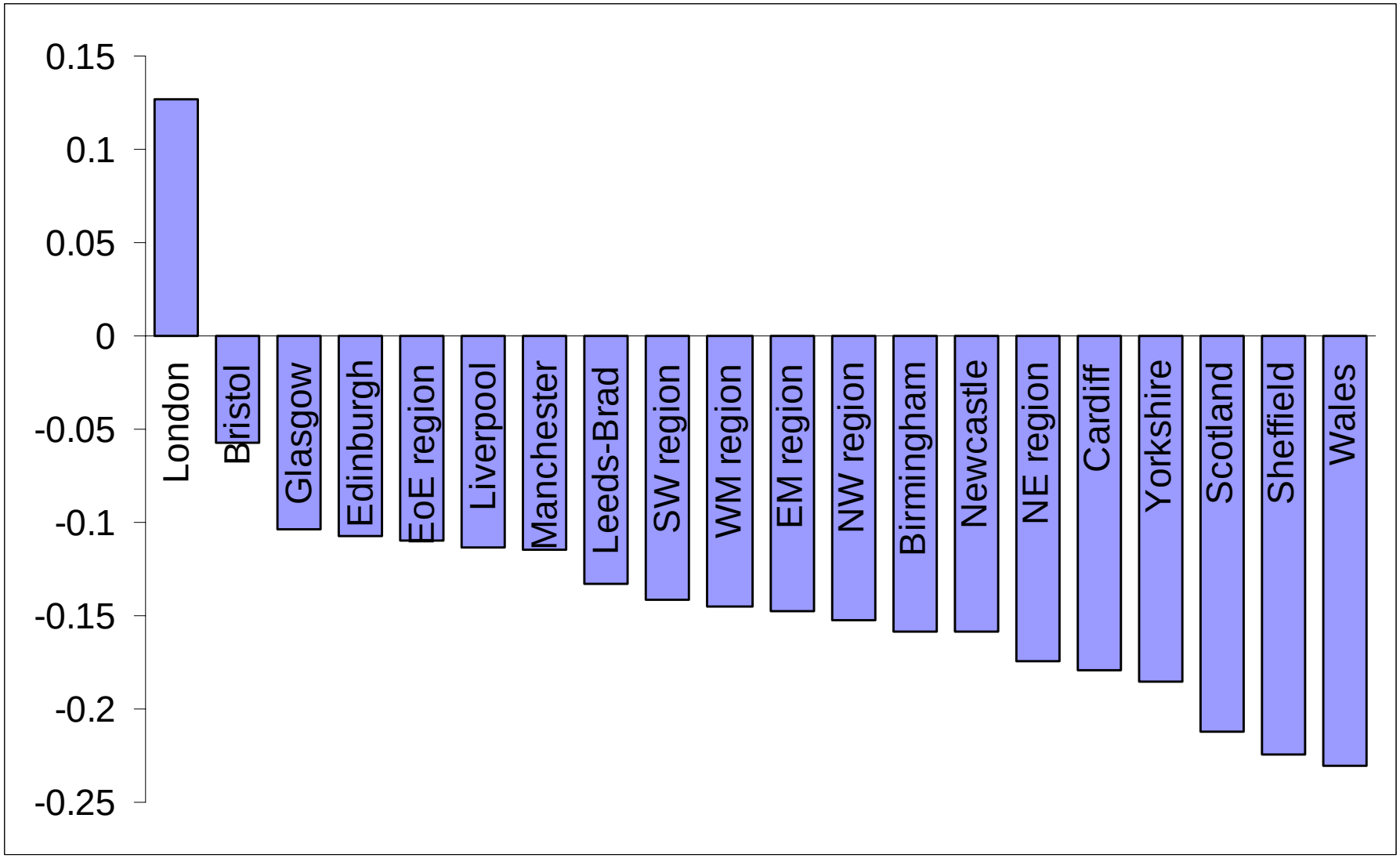
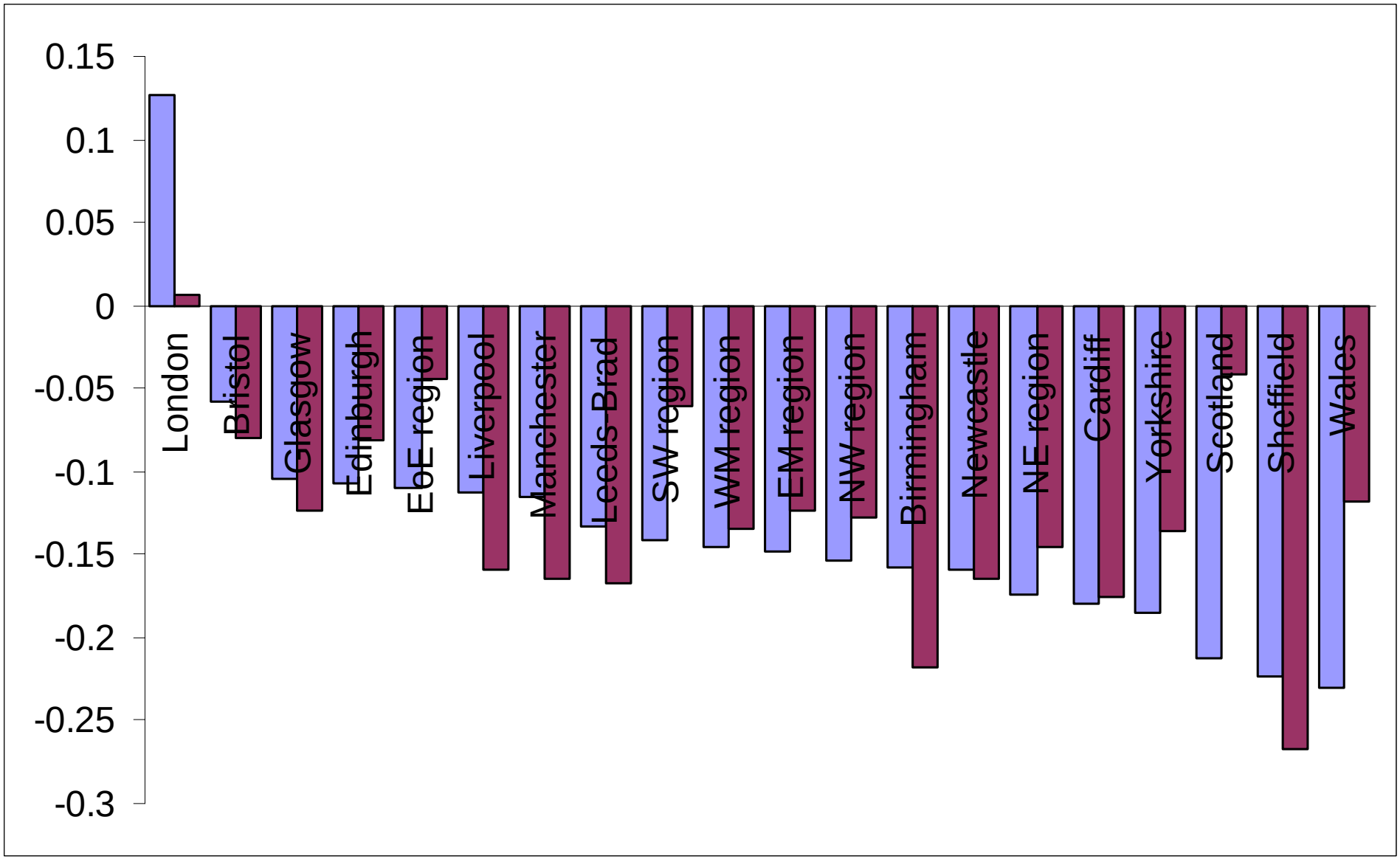
Determinants of productivity differences

Variable	(1)	(2)	(3)	(4)
Urbanisation		0.0894	0.0730	0.0679
Skills (NVQ3)			4.442	6.433
Skills (NVQ4)			10.7624	9.278
Airport				-0.00688
Motorway				-0.00452
Station				0.00818
Port				-0.0126
Observations	285809	285809	285809	285809
R-squared	0.897	0.898	0.899	0.899

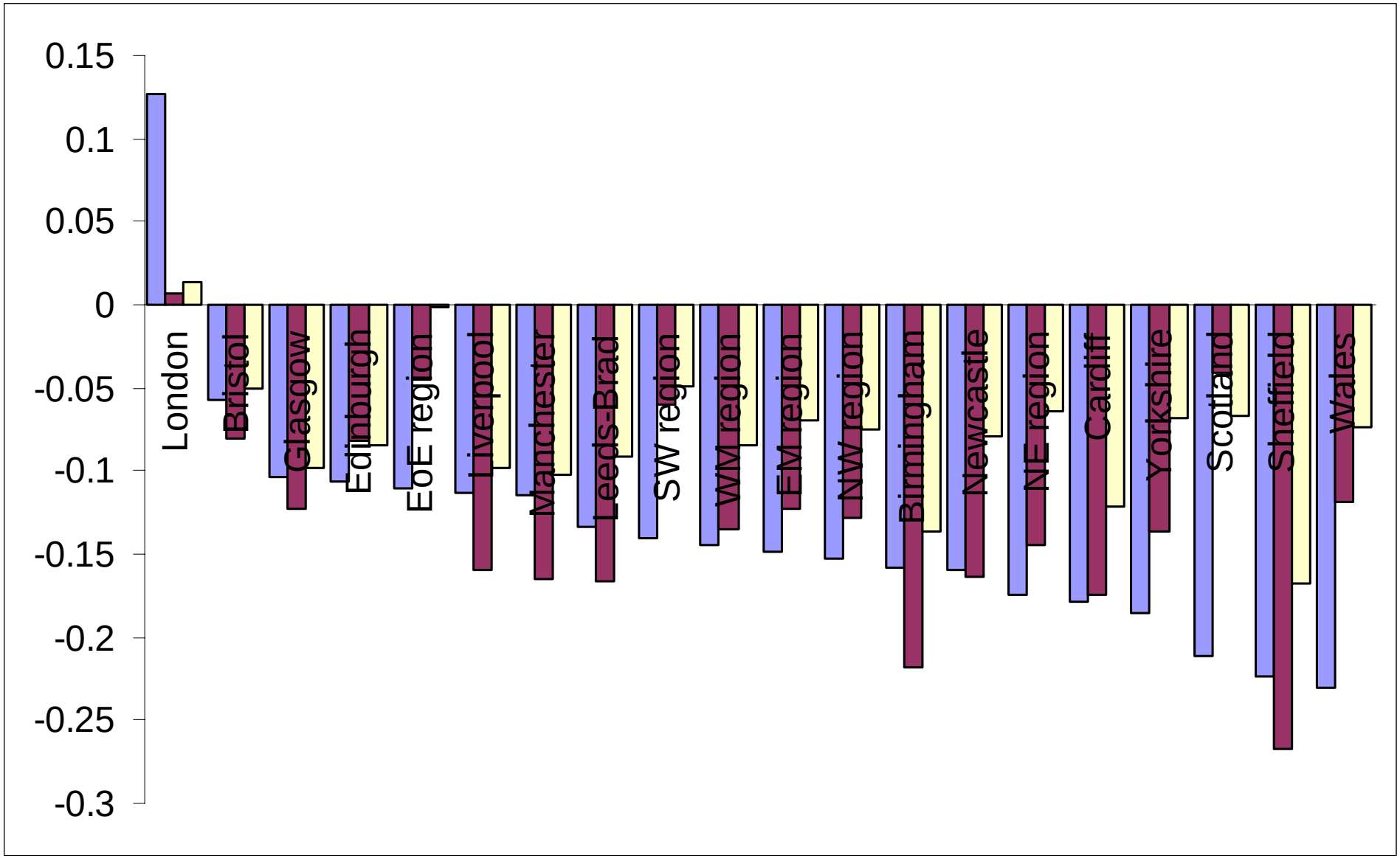
Productivity Differences



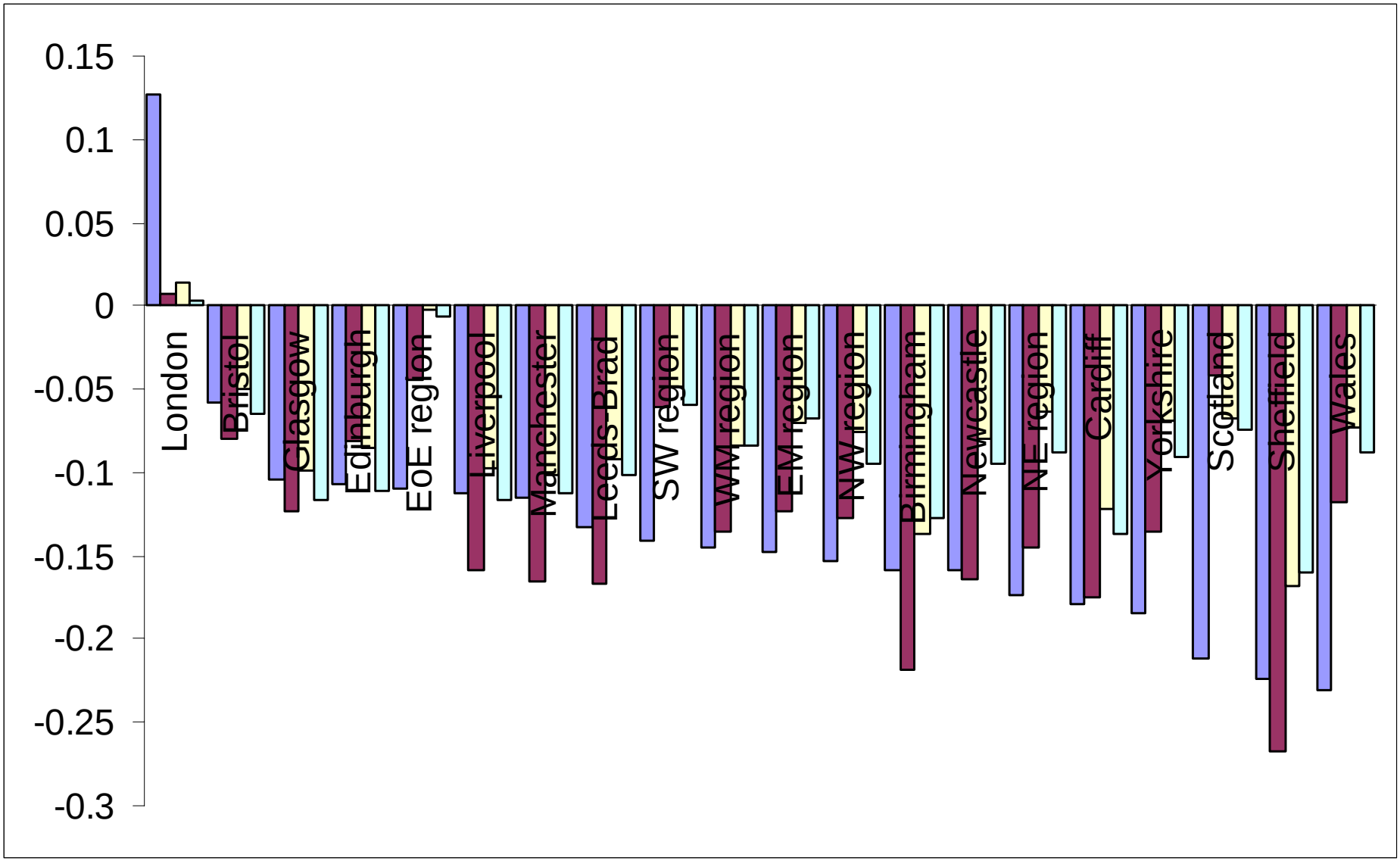
Productivity differences (controlling agglomeration)



Productivity differences (controlling agglomeration; skills)



Productivity differences (controlling agglomeration; skills; transport)



Sector evidence

- Role for "key sectors"?
- Very difficult to be certain about an areas 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

Urban I	0.0679	
Urban II		0.0957
Local		-0.0281
Skills (NVQ3)	6.434	6.218
Skills (NVQ4)	9.278	9.91
Airport	-0.0069	-0.0056
M-way	-0.0045	-0.0038
Station	0.00818	0.00721
Port	-0.0126	-0.0134
Obs	285809	285775

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.

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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 → 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

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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

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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

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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

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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!

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Disclaimer

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