



The Northern Economy in the Next Decade

Executive Summary of Paper 5 from the Northern Economic Agenda project

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Challenging ideas – Changing policy

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Executive summary

About this report

This is the summary of a report that presents recommendations for the three northern regions of England, the North East, North West and Yorkshire and the Humber, on:

- how to improve their economic performance; and
- how to narrow the gap in prosperity between these regions and more prosperous parts of England, while also delivering a socially just and environmentally sustainable northern economy.

It is the final report from ippr north's research project 'A Northern Economic Agenda'.

The recommendations draw on the previous papers from the project, published in November 2007:

1. *The North in Numbers: A strategic audit of the northern English economies*, by Michael Johnson, Olga Mrinska and Howard Reed
2. *The Public Sector in the North: Driver or intruder?* by Olga Mrinska
3. *Entrepreneurship and Innovation in the North*, by Michael Johnson and Howard Reed
4. *Moving On: A progressive transport policy for Northern England*, by Howard Reed

All four papers are available to download from www.ippr.org/publicationsandreports/.

The main issues

Regional differentiation in socio-economic development is a natural phenomenon in any country that has a relatively large territory and population, but public policy can and should contribute towards closing this gap, though eliminating it completely is a challenging ambition.

Our research demonstrates that the three northern English regions each face substantial economic challenges. For example, all three regions currently perform worse than the UK average on productivity and income per head, working-age employment rates, business start-ups, and proportions of highly-skilled people in their workforce. However, each region also has substantial potential, which is currently underestimated and under-used. Unlocking this potential will require more tailor-made policy instruments, a better institutional framework, high quality regional leadership, and extra financial resources in certain areas.

England has no specifically defined 'regional policy'. Various sectoral policies have a regional dimension, but these are not well coordinated. Public policy fails to address complex regional problems as it lacks an important spatial dimension: sectoral policies should be better aligned with each other and should add value to each other rather than being in conflict. The Government should allow 'positive discrimination' in regional policy, with regions offered a range of instruments and resources that differ according to their levels of development and potential for growth.

A national spatial planning strategy is also needed in order to address the complex problems of sustainable development within England as a whole and in the North in particular. The three northern regions should consult on how to develop a joint spatial development strategy to respond to the challenges of the North's 'peripheral' location.

Recommendations

Our in-depth analysis of the northern regions, embracing a wide range of economic, social and environmental factors of development, shows that there is no a priori reason why the North cannot at least make up a large proportion of the output gap with the English average over the next 10 to 20 years. Below we outline key recommendations in each policy area.

The determinants of productivity

When measuring the economic performance of the UK regions, there is a tendency to focus exclusively on productivity indicators, such as Gross Value Added (GVA). However, in order to close the gap between the North and the English average, it is essential to have a much broader perspective on performance and to focus on the drivers of productivity: employment, skills, entrepreneurship, innovation, investment and infrastructure spending.

Employment

The North's core strategy for increasing productivity should be to attract more people of working age into the labour market, including those who are hardest to reach. On the supply side, one option would be to replace current benefits for unemployed and inactive adults of working age with a single income replacement benefit, alongside a personalised package of employment support and conditions on benefit receipt. This would be easier for claimants to understand and ensure they were much more actively supported into work. But the Government needs to ensure that employment support services for the hardest-to-reach groups, particularly Incapacity Benefit claimants, are properly resourced.

On the demand side, we recommend that transport policy needs to focus on making it easier for workers to get to 'where the jobs are' by improving the transport connectivity of the North. Measures to encourage innovative industries and sectors to start up in or relocate to the North, and to improve transport infrastructure, will offer an additional boost to labour demand.

Skills

Public funding for adult learning in the North needs to focus on the unemployed and inactive people of working age that require the most assistance with skills: those with low levels of qualifications or no qualifications at all, long-term unemployed jobseekers, the over-fifties and Incapacity Benefit claimants. It is essential that northern employers are encouraged to play an active role in adult skills policy and be fully engaged with the public sector institutions. Policies that address the North's 'skills deficit' will also help to strengthen entrepreneurship and private sector initiative. In this regard, the plans for additional apprenticeships and training in basic skills announced by the Government this month are most welcome.

The role of the public sector in improving the skills mix in the North should be enhanced, by moving more policy and research posts to the North. All three Northern regions also need to target and attract highly skilled migrants. The Government should engage the northern Regional Development Agencies (RDAs) in determining the way that national immigration policy should operate in the future. This could be done, for example, by adding a regional ‘weighting system’ to the forthcoming points-based system for highly-skilled immigrants.

Entrepreneurship, innovation and investment

Previous research suggests that high levels of personal wealth are a key determinant of the decision to become an entrepreneur. The North has lower than average wealth due to relatively-low average house prices and levels of other asset holdings.

Policies that encourage a more even distribution of wealth between regions are likely to encourage entrepreneurship in the North. More ‘hybrid’ public-private support mechanisms are required to achieve successful economic growth: for example, financial incentives to encourage participation in collaborative projects, improvements to transport and communications infrastructure, and an effective regulatory environment for business. The northern RDAs should also undertake more systematic evaluations of the effectiveness of their entrepreneurship education programmes.

The Research and Development (R&D) tax credit has had a significant positive impact on the amount of research and development in the UK and it should be extended if the tight spending envelope set by the Government in the 2007 Comprehensive Spending Review (CSR07) allows. At the least, it should be maintained at its current level. The evaluation of the effectiveness of national and regional initiatives designed to encourage networking among firms and between firms and other innovators requires more attention.

Attracting greater levels of inward investment to the northern regions is another crucial condition for economic success. Existing initiatives from the three northern RDAs should be supported, although they should not encourage investment in one northern region at the expense of others. The North also requires greater support in enhancing business confidence, which is a key determinant of investment. Policy should aim to promote a vibrant, confident image of the North to investors from outside the region.

Transport

There is a need for a cross-cutting strategy of expanding transport infrastructure in the North in such a way as to ensure environmental sustainability and consistency with the Government’s long-term targets for greenhouse gas emissions. Greater mobility and accessibility for the North should be achieved through the improvement of modes of transport that emit lower levels of carbon than others, for example by improving the quality of railway links and expanding the use of waterways for freight. Taken together, these measures would constitute a ‘modal shift’ in Northern transport habits towards lower-carbon transport solutions and away from high-carbon options such as aviation and motoring. However, ruling out any expansion of the road network is an extreme step that should be avoided: severe capacity constraints should be addressed either through demand management measures or

targeted road-building.

Two of the northern regions – the North East and Yorkshire and the Humber – appear to lose out significantly from the current distribution of public investment in transport: the Department for Transport should review its future funding allocations to make sure that these regions get a fair share of funding. As recommended in the Eddington Transport Study of December 2006, transport investment projects should be appraised in value-for-money assessments that incorporate environmental and distributional factors as well as their contribution to economic growth. The Eddington study must not be used to justify a blanket rejection of major new infrastructure projects in the North, as this could have very damaging consequences for the region’s future prosperity. The existing transport governance arrangements at the regional and sub-regional tiers need to be improved to allow a greater flexibility of transport decision-making.

The public sector and fiscal decentralisation

The Government should place greater emphasis on the spatial efficiency of the public sector in the North. The implications of national-level reforms for the northern regions should be assessed in advance. The North might benefit from and contribute more to the efficiency agenda if the Government were to go beyond efficiency targets and use more varied means to improve value for money. The relocation of more managerial and expert jobs to the North of England should be coordinated with the priorities of the Regional Economic Strategies. Local small and medium businesses should be supported in order to benefit from modern procurement solutions, which at the same time should be altered to respond to the Government’s sustainability commitments.

The relatively large size of the public sector in the North as a share of Gross Value Added (GVA) should be viewed as an opportunity to use public spending intelligently to develop the rest of the Northern economy, rather than as a threat to economic growth and stability. The reduction of the public sector’s share in Northern GVA should progress not at the expense of cuts in public spending, but rather as a result of the expansion of the private sector.

The Government’s formulae for allocation of public spending should continue to reflect the greater spending needs of the northern regions. While the Government should increase the amount of capital investment in the North, especially in the transport sector, it should also develop a modern, needs-based approach towards allocating current spending across the regions. It should allow greater decentralisation and de-concentration of regional and local authorities to go hand-in-hand with at least some degree of fiscal decentralisation, letting regions raise and spend more money locally.

Policies aimed at enhancing productivity drivers have the potential to transform the Northern economy only if they are properly resourced. The tight spending limits set by the CSR07 will make these transformational improvements difficult to achieve unless there are some financial innovations and a shift of priorities in national spending, especially in the areas of transport and the labour market.

Institutional changes

The simplified performance assessment framework for RDAs is a big step towards greater flexibility of policy decision-making; it does

not, however, reflect their new functions, which go beyond stimulating economic development. Moreover, while RDAs have received some additional functions, there has been a slight reduction in their overall budget. The imbalance between the additional scope of work and the decreases in funding may have a negative impact on the effectiveness of some regional initiatives. The introduction of new sub-regional policy instruments (in the form of Multi-Area Agreements) provides a desirable additional level of collaboration between local authorities, but there is a danger that this might stretch their capacity. Local authorities need a clear understanding of the institutional mechanisms and policy tools that will be available to them under the new institutional arrangements likely to be introduced following the Government's Sub National Review of Economic Development and Regeneration.

Meeting environmental challenges

A fundamental cross-cutting argument running through our research is the need to integrate progressive environmental policies into all aspects of public policy. If the UK is serious in its ambition to build a 'low-carbon' economy, then environmental considerations should not be an 'add-on' to policy; instead they must form the backbone of any scenario of economic growth of the UK and its regions/nations. Only then will the UK economy be at the forefront of global innovative economy without limiting future generations' chances of a decent and socially just life. All policy initiatives in the North, such as the development of new residential housing, business and retail office space, and transport infrastructure, should be consistent with meeting the Government's goal of a 60 per cent minimum reduction in greenhouse gas emissions by 2050 and should be focused on preserving the North's environmental advantages at the same time as closing the output gap.

Conclusion

If the policy recommendations in this report are followed, we believe that the northern regions of England will, at the very least, be able to close a substantial proportion of the £30 billion gap, identified by the Northern Way in 2004, between their output and the English average Gross Value Added per head. They will be able to deliver prosperity for the North while simultaneously delivering a more environmentally sustainable, lower-carbon economy, and creating a more equal society with a better public transport infrastructure, a workforce with a higher level of skills, and more balanced spatial patterns of growth and development.

However, the programme outlined here needs to be followed consistently into the medium to long term – well into the 2010s and beyond – and started as soon as possible. 'Quick fix' solutions will not work, and there is no single 'magic bullet' policy that will suddenly unlock the North's potential. Rather, complementary reforms and new initiatives need to be produced over a wide range of policy areas. It is also essential to have an overarching regional leadership agenda that is much more than the sum of the leadership strategies of individual stakeholders.

Realistically, only limited extra spending will be possible under the tight spending envelope that arose from the 2007 Comprehensive Spending Review. An indiscriminate expansion of public spending on the North is neither likely nor desirable. But conversely, permitting no additional spending in any area of regional policy would be equally counterproductive. The North needs targeted additional spending, which will realise its economic growth and environmental and distributional objectives.

The North of England has what it takes to be in the vanguard of economic prosperity and well-being in twenty-first century Britain. All that is required is the political will from central government to implement reforms along the lines suggested here and to resource them properly, coupled with well-functioning implementation of policy at the regional and local level to turn our blueprint for a progressive agenda for the North into a reality.

