

LEARNING
FROM THE
PAST

NEFC BRIEFING PAPER NO 1

IN PARTNERSHIP WITH



Richard Baker and
Jenni Viitanen

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ABOUT THE AUTHORS

Richard Baker is an associate fellow at IPPR North.

Jenni Viitanen is a research fellow at IPPR North.

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ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With bases in Newcastle and Manchester, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

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IPPR North
3rd Floor, 20 Collingwood Street
Newcastle Upon Tyne NE1 1JF
T: +44 (0)191 233 9050
E: north@ippr.org
www.ippr.org/north
Registered charity no. 800065

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NEW IDEAS
for CHANGE

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PURPOSE

This paper aims to provide a resource to support the work of the Northern Economic Futures Commission.¹ It offers underpinning evidence and thinking on the first of the eight questions which have been set out for the future work programme of the commission (see boxed text below).

It addresses four issues which emerge from question 1 as follows:

1. What is the recent story of economic growth and development in the North of England?
2. What is the framework that should be used for understanding economic performance in the North? How should we measure performance? How does the North compare with other places?
3. What interventions have contributed to this performance over the past decade, and what could be required in the future?
4. What future dynamics – derived from economic, social, environmental or other factors – should influence our framework for defining success in the future?

Eight core questions for the Northern Economic Futures Commission

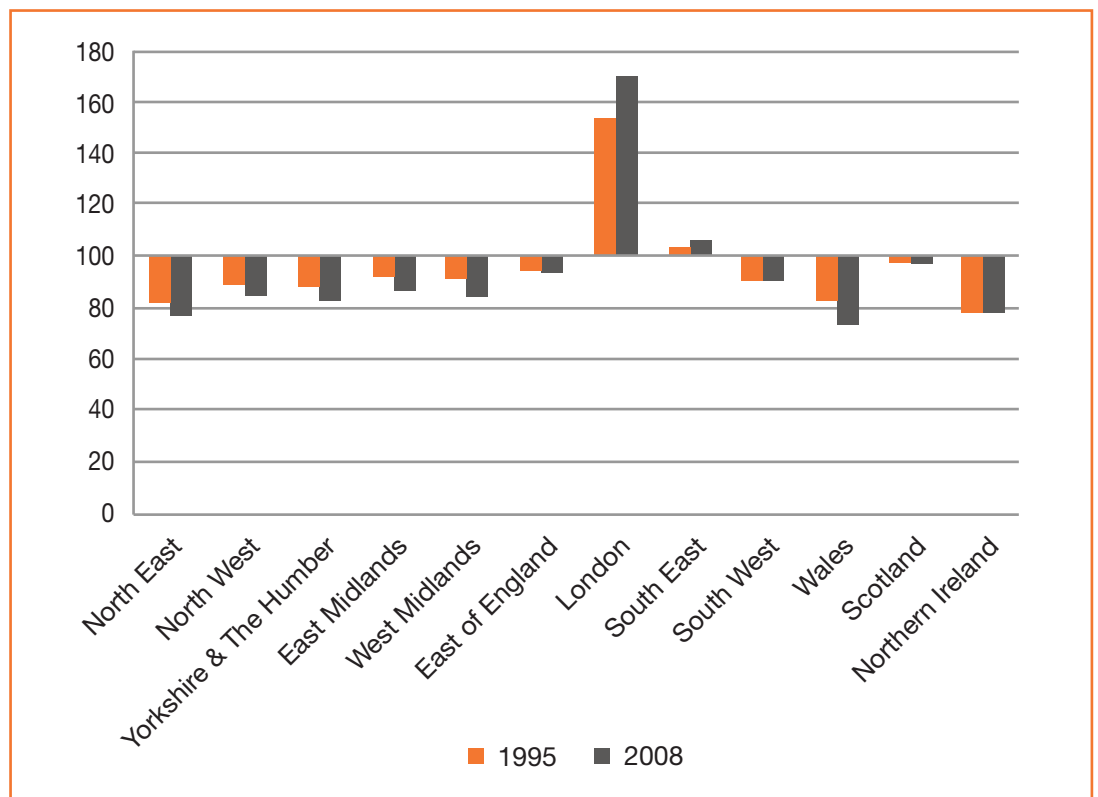
1. What can be learned from the past about the northern economy and the ability of policymaking to shape it?
2. What should a successful northern economy look like?
3. Where will economic growth come from?
4. How will a new phase of economic growth be financed?
5. How do we mobilise assets and skills in innovation and nurture enterprise in the North of England?
6. What are the priorities for employment and skills in northern labour markets?
7. What are the key priorities for transport, housing and other infrastructure challenges?
8. Does the North of England have the structures and powers it needs to drive growth?

¹ For more on the NEFC, see <http://www.ippr.org/research-projects/44/7405/northern-economic-futures-commission?siteid=ipprnorth>

1. THE RECENT ECONOMIC STORY OF THE NORTH

The prevailing narrative about the economic performance of the North contrasts the dominance of the prosperous and powerful Greater South East with the lagging regions of the North West, North East and Yorkshire and the Humber. Economic underperformance in the North is evident when compared to the South, specifically London and the Greater South East, and also the UK average (see figure 1.1).

Figure 1.1
Change in gross value added, 1995 and 2008



Source: BIS and CLG 2010

This is not a recent phenomenon. Over the last 140 years London's GVA has been higher than elsewhere in the UK.² Regional imbalances reduced in the post-war period up to the 1970s, but since then, regional differences have increased.³ This recent reversal of fortunes coincides with intensified trade liberalisation internationally and within the UK.

Underpinning these developments in the UK economy has been the growth of the key service sectors, particularly as a result of consolidation of London as one of the key global financial centres in the 1980s, and the deregulation of the City of London (Ward 2010), combined with transition in the North from its previous industrial economy. International comparisons with France, Germany, Italy and the United States suggest that, since 1985, the UK has had the highest rate of regional divergence, and this follows from a period between 1950 and 1985 when it had the highest degree of convergence (BIS and CLG 2010).

However, within the overarching story of a North/South divide there is genuine complexity. A nuanced examination reveals differences both between and within regions, with

² See for example BIS and CLG 2010, Tomaney and Richardson 2010

³ The narrowing or deepening of regional differences is known as convergence and divergence respectively.

particular parts of the economy increasingly coming to the fore and others ebbing. Alongside North/South imbalance, imbalance exists across the North as a region, as it does elsewhere in the UK.

While the common history of unfinished industrial change and transition binds the North and its territories, and underpins the rationale for the work of the Northern Economic Futures Commission (NEFC), there are also problems in the South. Some of these problems are shared with the North, driven by industrial change and spatial restructuring, but some are different, such as house price pressures, congestion and exaggerated inequality. In addition, some parts of the North, particularly its larger urban economic hot spots, have done well in recent years – in some cases outperforming similar places in the South.

Concerns about spatial economic imbalance are not unique to the UK, although the underlying economic imbalances within the UK are among the most pronounced within major developed economies globally. Concerns in the UK have parallels in international and academic discussion about sub-national economic development, territorial cohesion and the economic futures of places, including in the current debates about the future priorities for the EU Cohesion Policy programme for the 2014–2020 budget round.

During the ‘long decade’ of the previous government, a quasi-regional policy was pursued through regional development agencies (RDAs), working with a range of other organisations and agencies, aimed at narrowing the gap between the North and the South.

Despite a determined programme of work and investments made by RDAs and their partners, a gradual evolution of the institutional framework towards more decentralised arrangements, and a benign economic environment, the headline figures remained stubbornly fixed. Between 2000 and 2008, while the annual rate of growth in GVA in the northern regions was a healthy 4.6 per cent, it was still below the England and UK averages of 5.2 per cent.⁴

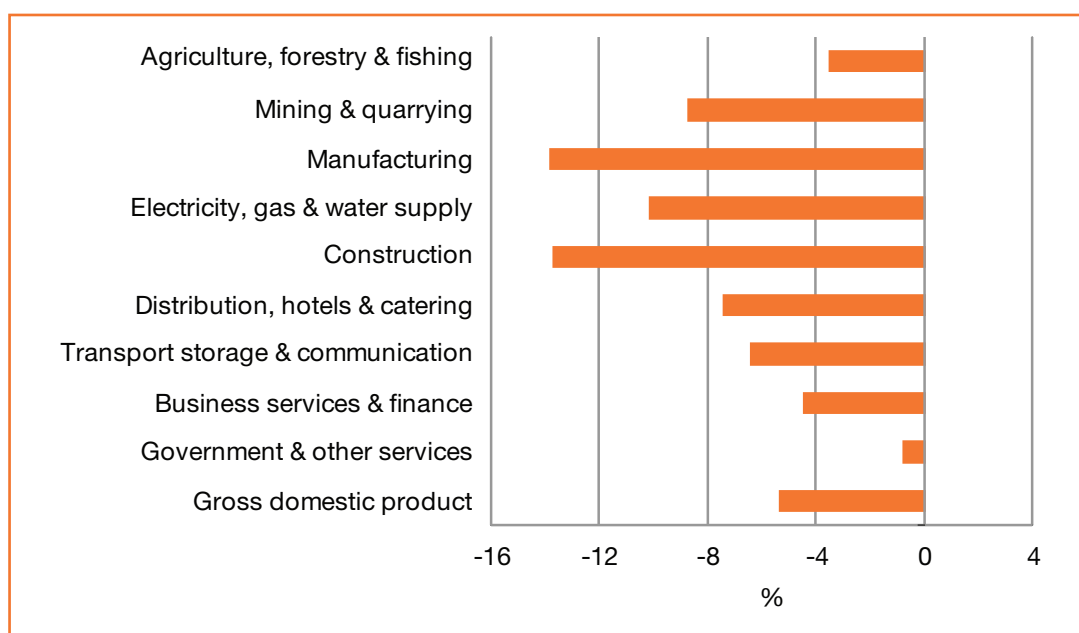
The assessment of this performance is contested. For some, the story of the last decade was one of failure. The gap in performance barely shifted and longstanding challenges persist. The northern regions still rely on public sector jobs and investment – the private sector is weak, and is challenged by a dependency on public sector contracts. Outside the main urban centres, and away from the business parks, innovation centres and key industrial sites, performance was below average during the growth years prior to 2008, and the recession of 2008–2009 bit hard, hitting sectors on which much of the North relies (see figure 1.2), stripping out less competitive businesses and vulnerable employment sites, and badly affecting a swathe of northern towns and cities reliant on manufacturing and primary industries.

For others, however, the story of the last decade is one of unfinished business. Over this period, there was a significant turnaround in the economic fortunes of some of the North’s major urban economies, around Manchester, Leeds, Newcastle, York and Sheffield. New industries are emerging and distinctive key assets are now both evident and a focus for investment.⁵ City centres have been regenerated and levels of growth and employment in some areas were among the best in the UK during the pre-2008 period. As other parts of the North struggled through the recession, key economic centres have shown considerable resilience and are significantly better positioned for recovery than they were after previous downturns.

4 Regional Accounts, Office for National Statistics

5 See SQW Consulting 2008, OECD 2008

Figure 1.2
Change in output by sector, 2008–2009



Source: Dolphin 2009

Looking ahead, however, the long tail of the recession continues to impact upon the North in particular. There has been a significant downturn in investment from all sources and many parts of the North of England are facing significant difficulty as public sector austerity bites, in both private and public sectors.

Table 1.1 below shows the estimated job losses resulting from government spending cuts in English regions and the devolved administrations, in descending order by percentage share, published by PricewaterhouseCoopers (PwC). PwC estimated that the total reduction of jobs could be as by many as 1 million, comprising 500,000 public sector posts, as budgeted by the Office of Budget Responsibility (OBR), and a further 500,000 from the impact on private sector suppliers and subcontractors (PwC 2010).

Table 1.1
Estimated job losses as a result of the public spending cuts

	Count	Percentage
Northern Ireland	36,000	5.2
Wales	52,000	4.3
Scotland	95,000	4.1
North East	43,000	4.1
North West	108,000	3.7
Yorkshire and the Humber	82,000	3.7
West Midlands	80,000	3.6
East Midlands	58,000	3.2
East	74,000	3.2
South East	112,000	3.1
London	122,000	3.1

Source: PwC 2010

How should we judge this performance in terms of long-term development, in the context of a long period of industrial transition since the decline of the industrial base that dominated the North, and against the benchmark of rapid growth provided by London and the South East and which stands as a dominant economic force in the national economy?

2. EVALUATING THE PERFORMANCE OF THE NORTH OVER THE LAST 10 YEARS

Different measures can be used to evaluate economic performance. The main statistical tools are gross domestic product (GDP) and gross value added (GVA) (see boxed text). GVA is widely accepted as the most useful measure of regional economic performance: it encompasses both productivity and employment effects and, because of its harmonised collection methodology, provides a basis for comparison nationally and internationally (BIS and CLG 2010) across the major developed states, enabling conclusions to be drawn about performance using shared indicators.

This section looks at performance in terms of GVA, and also looks at the performance of the key drivers underpinning the performance.

What are GVA and GDP?

GVA is used in the estimation of GDP based on internationally harmonised standards. According to the Office for National Statistics (ONS), GVA measures the difference between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production. In other words, **GVA is the value of output less the value of intermediate consumption** – it is a measure of the contribution to GDP made by an individual producer, industry or sector.

GDP is an aggregate measure of production and a key indicator of the state of the national economy. GVA, by contrast, can be estimated at smaller scale; the ONS currently produces estimates for the English regions and devolved administrations (equivalent of NUTS 1) as well as sub-regional and local level (NUTS 2 and 3).⁶

Taking GVA as the measure of performance, figure 1.1 illustrated the imbalances in performance between the 12 UK regions. Between 1995 and 2008, the GVA gap widened as London and the South East nudged further ahead of the average; most other regions fell further behind. Figure 2.1 (over) demonstrates the widening of the GVA gap graphically over the same time period.

However, GVA is not uncontested as the key metric for economic activity. There is increasing debate about whether the ‘value’ measured in this way represents the right measure, given the need to take into account issues such as climate change, health and inequality. A number of more broad-based measures have been proposed as alternatives to help manage the economy in the face of these other factors and pressures.⁷

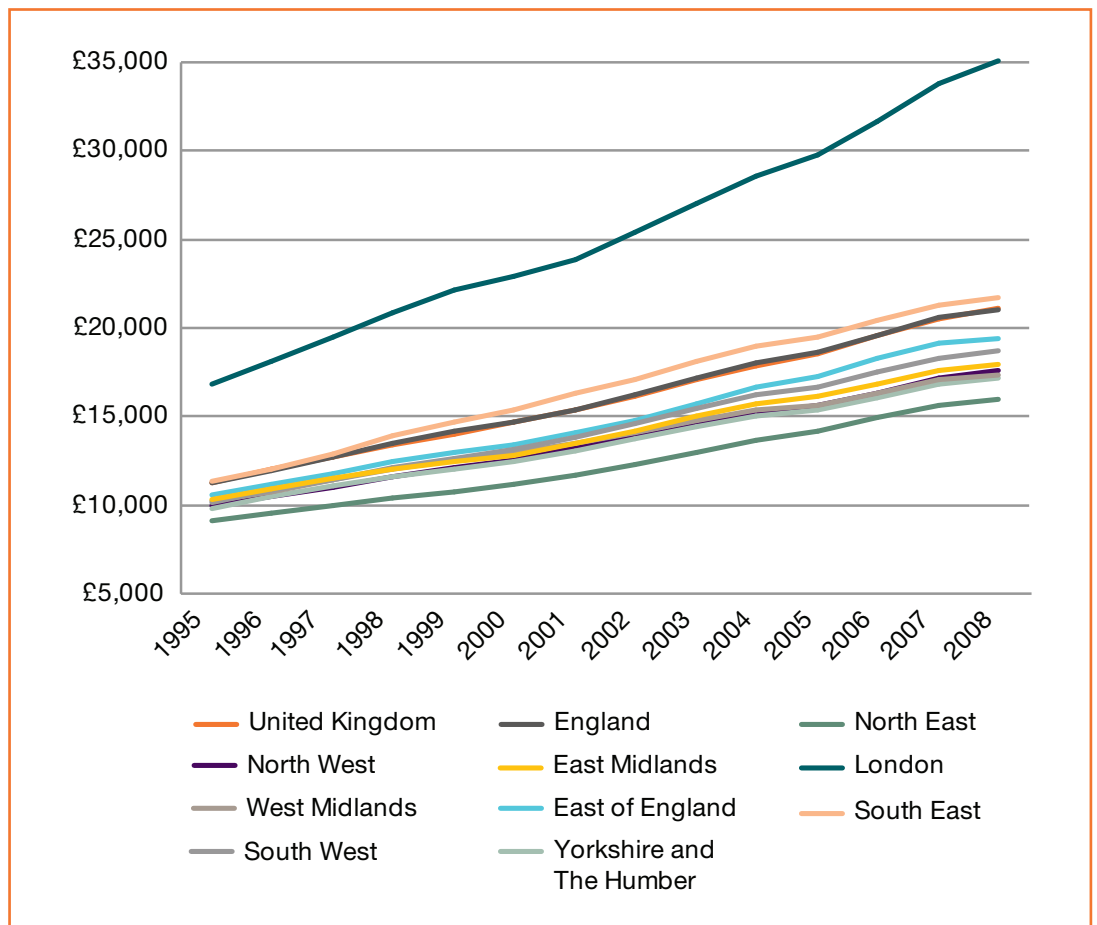
In addition, there are concerns about the translation of the estimates from national to sub-national level. The standard UK regions vary a great deal in terms of population and size, so comparisons are usually made in terms of GVA per capita. But GVA on that basis is largely insensitive to population characteristics, such as age or other reasons for economic inactivity. Nor does it capture commuting patterns, or issues such as part-time

6 The Nomenclature of territorial Units for Statistics (NUTS) classification divides the socioeconomic territory of the European Union into three tiers, based on population size, administrative boundaries and general geographical units. The three tiers are ‘major regions’ (NUTS 1, population 3–7 million), ‘basic regions’ (NUTS 2, population 800,000–3 million) and ‘small regions’ (NUTS 3, population 150,000–800,000). In the UK, there are 12 NUTS 1 areas, as well as 37 NUTS 2 areas, which are groups of counties and unitary authorities reflecting ‘sub-regions’ in administrative terms, and 133 NUTS 3 areas, representing the ‘local’ tier, comprising individual counties and unitary authorities (Eurostat 2010).

7 The UK government has requested the ONS to develop a statistical measure of ‘societal wellbeing’ alongside and beyond ‘economic wellbeing’. See <http://www.statistics.gov.uk/hub/people-places/communities/societal-wellbeing>

work and price differences.⁸ And it is difficult to use GVA to measure some of the nuances of economic performance, as its problems are exacerbated as the geographic units of analysis get smaller.

Figure 2.1
GVA per capita,
1995–2008



Source: ONS 2010

Alongside GVA, other indicators about the state of the economy are used to shape an understanding of economic performance. These include figures for employment, unemployment and economic inactivity, business start-ups and household income, as well as a wide range of other indicators, including basket indicators such as ‘societal wellbeing’ discussed above, consisting of several variables measuring a broader concept.

But there remains an issue in how to collect and make use of figures that are capable of examining the intricacies of economic performance – in particular, of getting beneath administrative scales to examine the performance of comparable functional areas.⁹

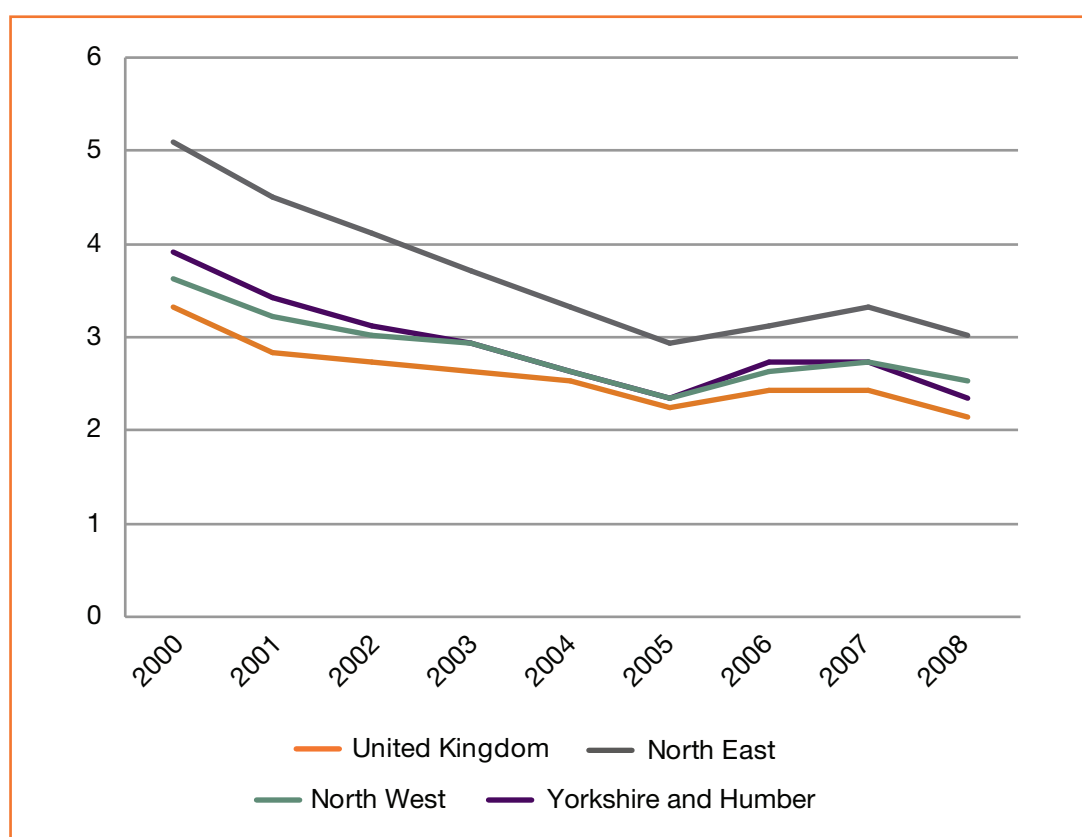
⁸ See Dunnell 2009, ONS 2010

⁹ Within the emerging global context, where questions of functionality, resilience and sustainability are increasingly of interest, the OECD is seeking to develop a basket of indicators at sub-national functional level which will enable comparison across OECD member states. They are assembling a group of indicators of sustainable economic performance at the level of the functional economy (broadly defined as travel to work areas), looking at economic, environmental and social measures.

Employment

Employment remains a key concern. Traditionally, the North has had a slightly higher percentage of its economically active population not in employment. Over the last decade, while unemployment remained higher in the North, overall trends moved broadly in line with the national picture, as shown in figure 2.2.

Figure 2.2
JSA claimant count rate percentage, Northern regions vs UK average, 2000–2008



Source: Official Labour Market Statistics, Nomis

Looking at the period since 1992, the long-term unemployment rate in England has seen an overall decline, from 9.9 per cent in 1992 to a low point of 4.6 per cent in 2004, rising again to 7.8 per cent in 2010.¹⁰

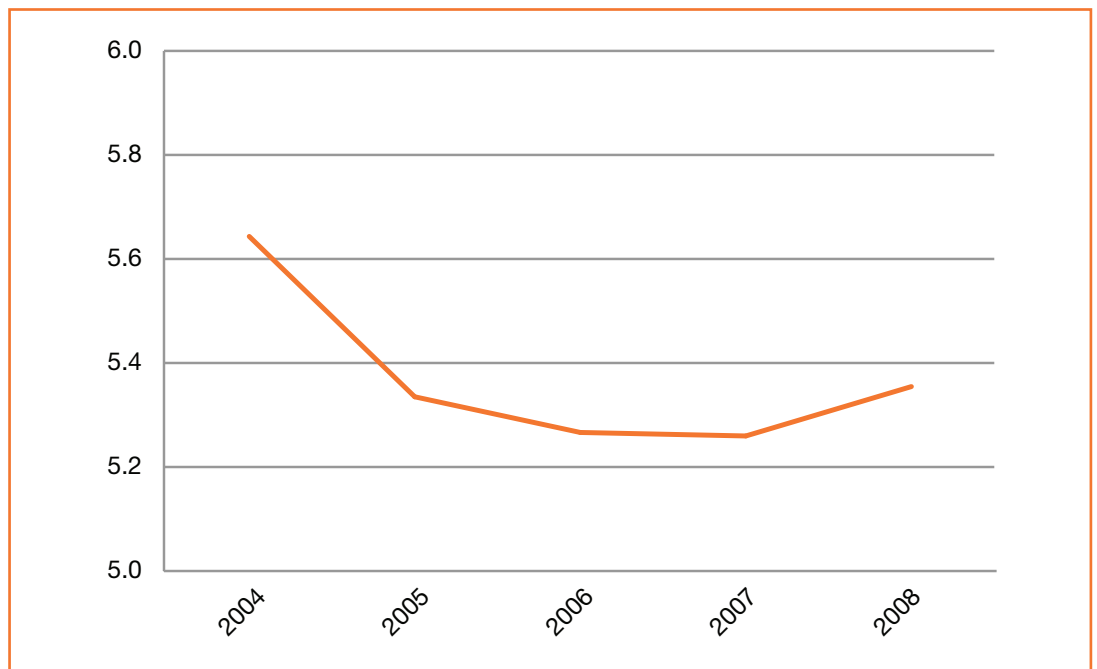
In terms of unemployment, the broad picture is one of convergence between local authority areas throughout the 1990s and up until the recent recession in 2008, when there was an increase in local differences. The curve depicting standard deviation across all local authorities in figure 2.3 (over) highlights the rise in disparities around 2008. So while the North was doing comparably well in better times, it demonstrated a significant weakness to economic shock.

Nationally, the local authorities with the lowest rate of employment from January to December 2008 were Manchester, Liverpool, Newham (east London) and Kingston upon Hull, all with employment rates at or slightly below 60 per cent. By contrast, the City of London had the highest rate, at 86.3 per cent. While the average across all English local

¹⁰ <http://www.nomisweb.co.uk/>

authority areas was 72.2 per cent, the average employment rate across the local authority areas in the three northern regions was 69.4 per cent (ONS, annual population survey 2010).

Figure 2.3
Standard deviation of employment rate, ages 16–64, in English local authorities (%)



Source: ONS, annual population survey 2010

Nationally, the local authorities with the lowest rate of employment from January to December 2008 were Manchester, Liverpool, Newham (east London) and Kingston upon Hull, all with employment rates at or slightly below 60 per cent. By contrast, the City of London had the highest rate, at 86.3 per cent. While the average across all English local authority areas was 72.2 per cent, the average employment rate across the local authority areas in the three northern regions was 69.4 per cent (ONS, annual population survey 2010).

But this is not the whole story. The North has higher levels of people classified economically inactive, compared to the national average. This changes the figures somewhat, as unemployment rates are presented as a percentage of the economically active population.

The headline measure of economic inactivity in the UK is for those aged 16–64, measured by the Labour Force Survey (LFS). The main economically inactive groups are students, people looking after family and home, long-term sick and disabled, temporarily sick and disabled, retired people and discouraged workers.

The latest figures from Nomis, February–April 2011, show that all northern regions have a rate of economic inactivity that is higher than the national average, and that while that rate has declined marginally across the UK since 1992, it has increased in two of the three northern regions (see table 2.1 over).

Table 2.1
Economic inactivity
(economically inactive
population as proportion
of total population)

	2011	1992
UK	23.3	23.4
North East	27.1	27.3
North West	25.2	25.0
Yorkshire and Humber	25.2	23.6

Source: Official Labour Market Statistics, Nomis

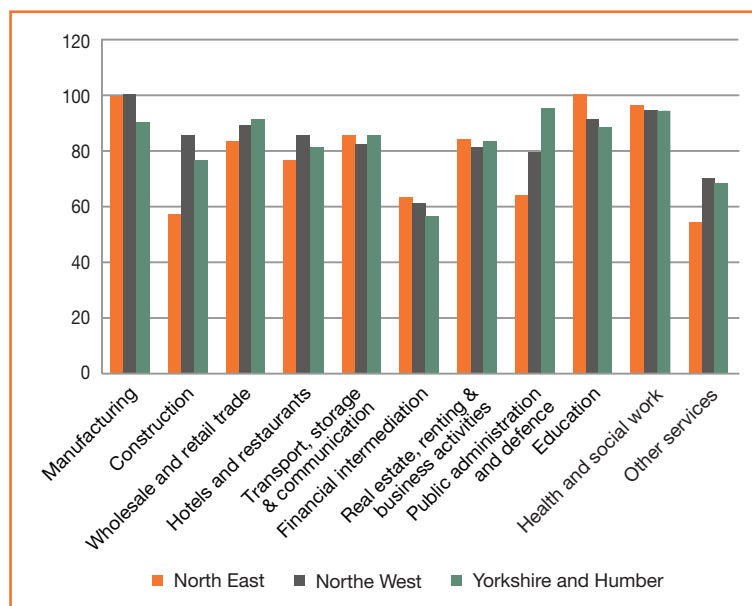
Productivity

It has been the priority of the government to address productivity differences, on the grounds that it is an explanatory factor for long-term spatial economic imbalance. While every region was able to increase its productivity performance over the last decade, the differing rates of productivity growth resulted in a relative widening of the gap in performance between the regions (see figures 1.1 and 2.1). Since 1993, average annual productivity growth in London was nearly one percentage point higher than all regions except the South East (BIS and CLG 2010).

An important observation from previous research is that only one-sixth of the variation in productivity between the North and the UK average can be explained by differences in industrial composition and the higher prevalence of low productivity sectors in the North (Johnson et al 2007). Therefore, most of the regional imbalance is explained by productivity gaps within sectors.

Figure 2.4 below compares productivity per employee across a variety of industries in the northern regions to the UK average. Note that productivity in key sectors where the North is strong – including manufacturing, but also education, health and social work – is very close to the national average. However, there are productivity performance gaps in other sectors, such as construction and hotels, and a much larger gap emerges in knowledge sectors, such as financial intermediation and other services.

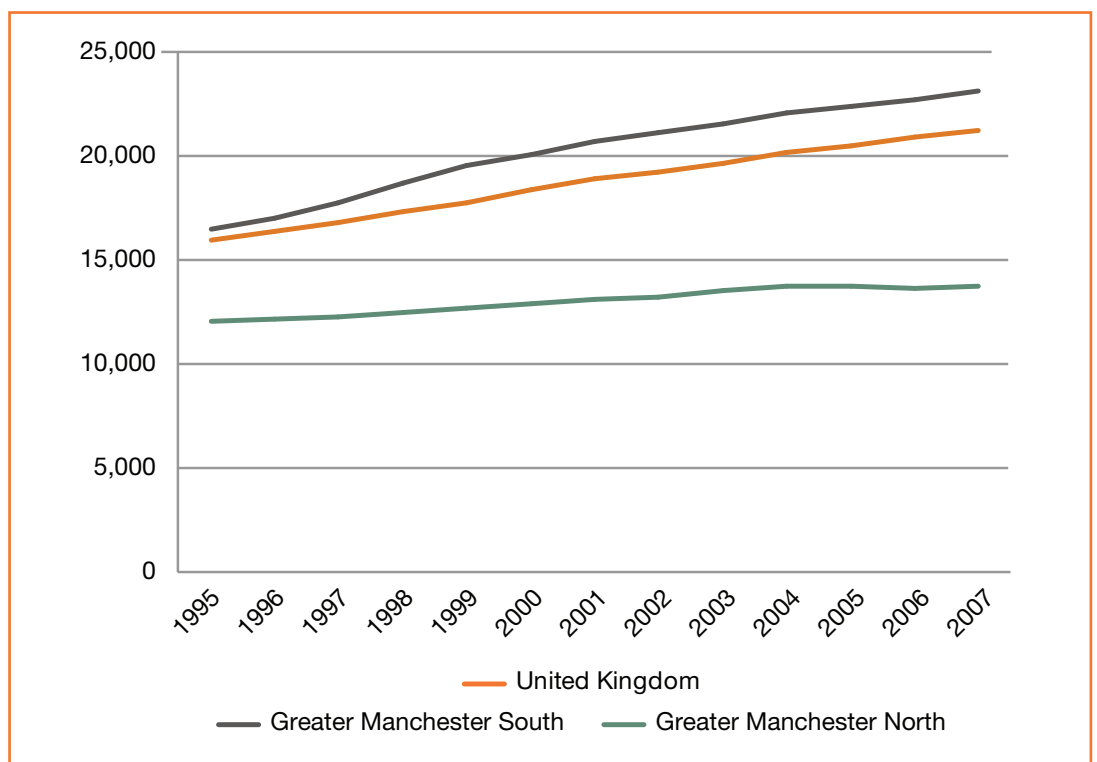
Figure 2.4
Index of GVA per
employee by selected
industry (UK average =
100), 2007/08



Source: ONS, 2009

Clearly the differing industrial structure is important – for example, with the key functions of the financial services sector increasingly concentrated in London – but imbalances within the northern regions and sub-regions are also evident. The position in Greater Manchester demonstrates contrasting productivity performance between local areas (see figure 2.5), a trend which would also be reflected in other urban centres.

Figure 2.5
GVA per capita,
Greater Manchester
North and South



Source: ONS
Note: 2009 prices

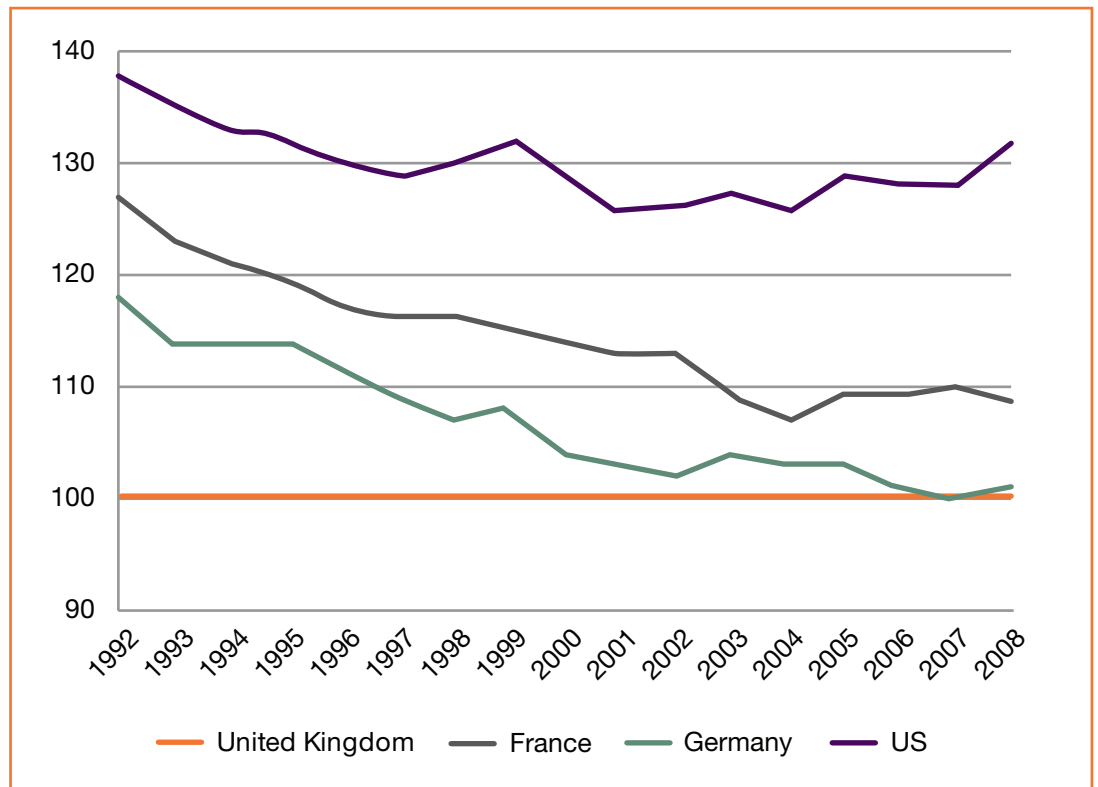
Boosting productivity performance

The UK government has promoted improvement around five key drivers of productivity: investment, innovation, skills, enterprise and competition. The overarching framework (HM Treasury and BERR 2007), which aimed to identify those levers that could make the most difference to productivity performance and to narrow the overall gap with comparator countries, is as follows:

- investing in the workforce and in skills
- investing in infrastructure
- simplifying taxes and regulation
- strengthening competition and market frameworks
- improving public sector efficiency.

Throughout the last decade, the UK made progress on productivity compared with its main competitors, with the exception of the US. Figure 2.6 (over) illustrates this comparison, in terms of the headline GDP-per-worker measure.

Figure 2.6
Index of GDP per worker
(UK = 100), 1992–2008

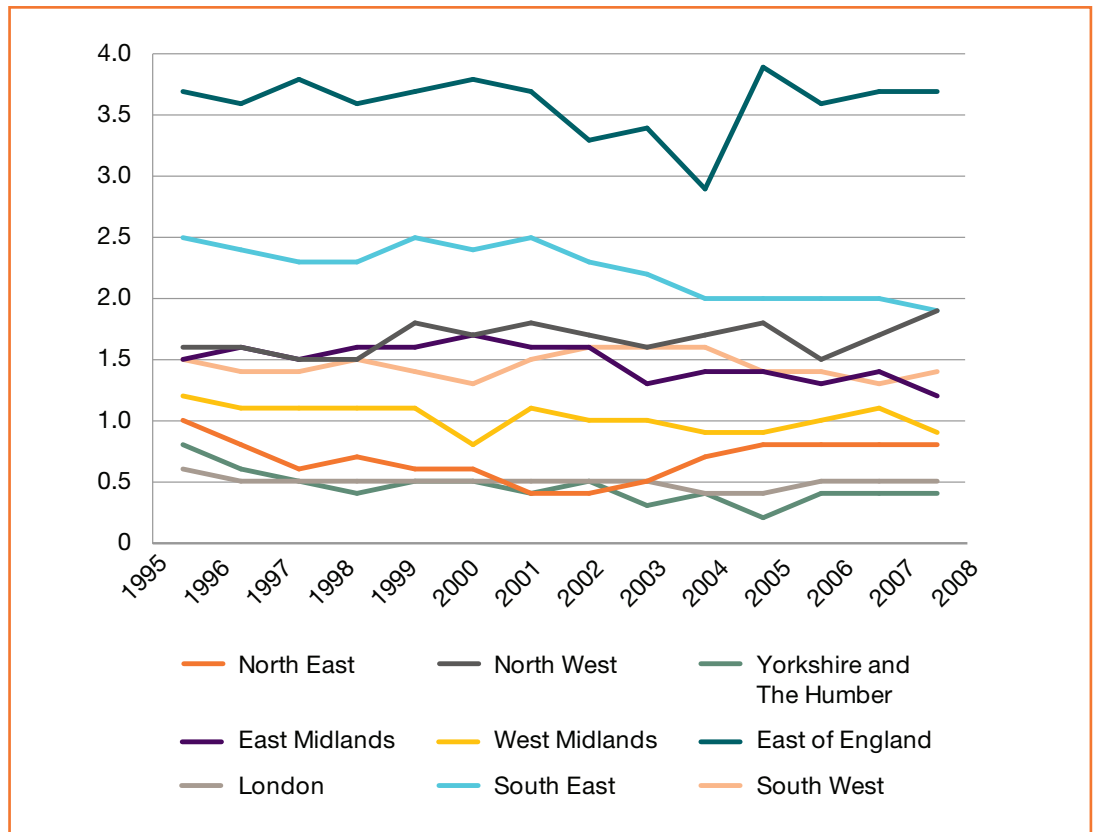


Source: ONS, 2009

In terms of the performance in the North, figures 2.7–2.10 show the headline trends in the key drivers which have been the focus of sub-national institutions in the three regions; skills, investment and innovation. Business expenditure on research and development (BERD) as a percentage of workplace-based GVA is commonly used as a proxy for innovation. It can be seen that East of England dominates in R&D investment, and that the North West has performed well in a period when the UK and England national R&D investment fell as a percentage of GVA.

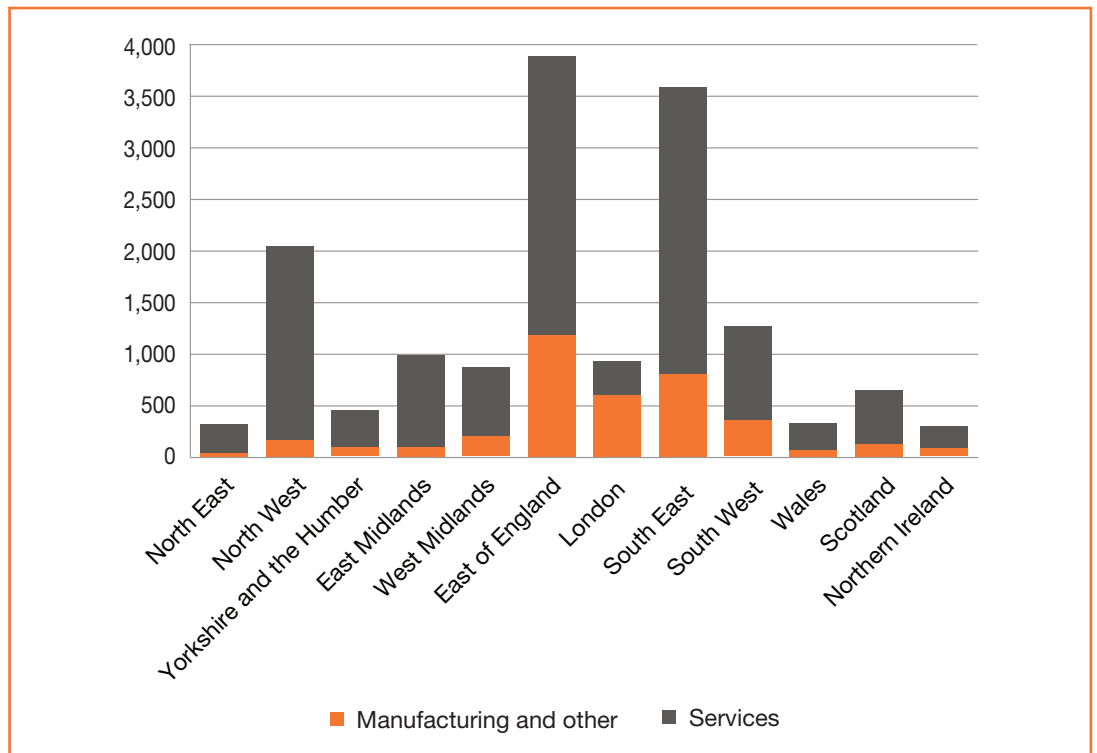
More detailed examination shows that most of the investment in the North West was into the manufacturing sector, whereas in the East of England, London and the South East a much greater proportion of R&D went into services (see figure 2.8). This is noteworthy, given that the service sector is the largest driver of employment growth in the UK, representing approximately 65 per cent of overall private sector output (McKinsey 2010).

Figure 2.7
Business expenditure on R&D as a percentage of workplace-based GVA, 1995–2008



Source: BIS, Regional Economic Performance Indicators¹¹

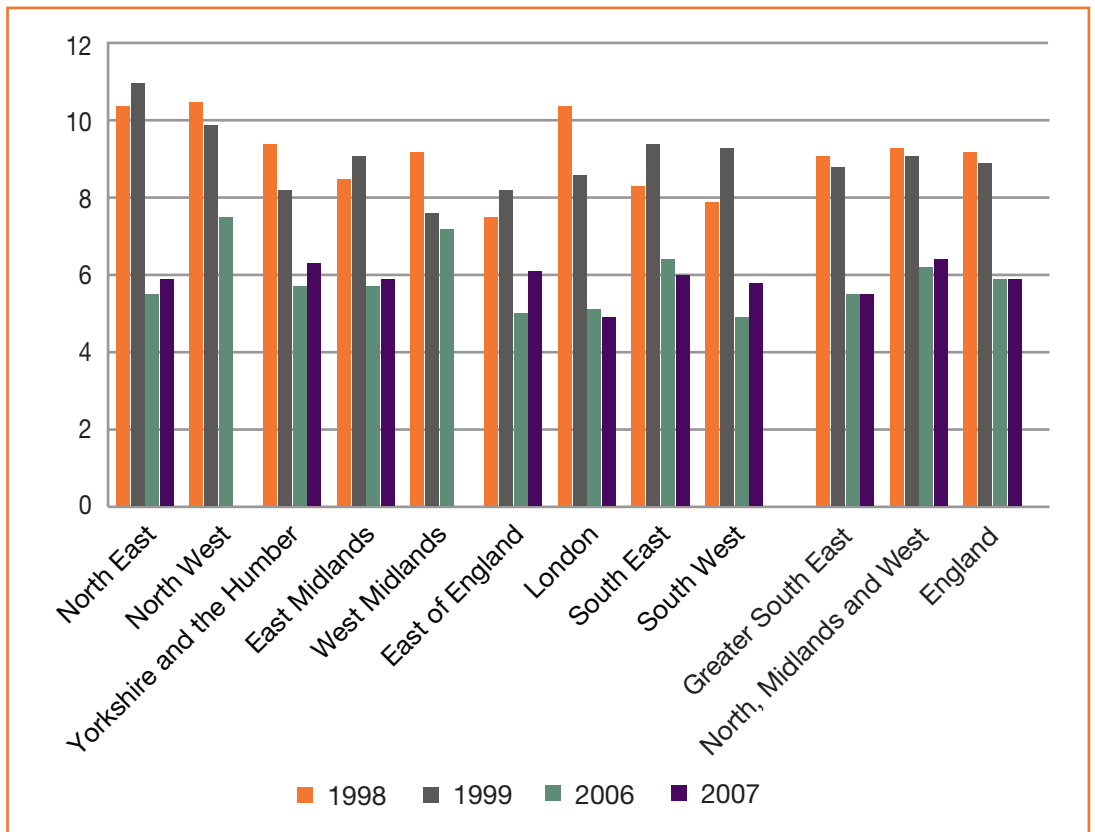
Figure 2.8
Business expenditure on R&D by region: broad product groups, 2009



Source: ONS, Business Enterprise Research and Development, 2009. <http://www.ons.gov.uk/ons/rel/rdit1/bus-ent-res-and-dev/2009-edition/business-enterprise-research-and-development---tables-15-to-17-and-charts-f-g--regional-data.pdf>
Note: The category 'Manufacturing and other' also includes agriculture, hunting, forestry, fishing, extractive industries, electricity, gas and water supply and construction. Investment in other industries account for less than two per cent nationally.

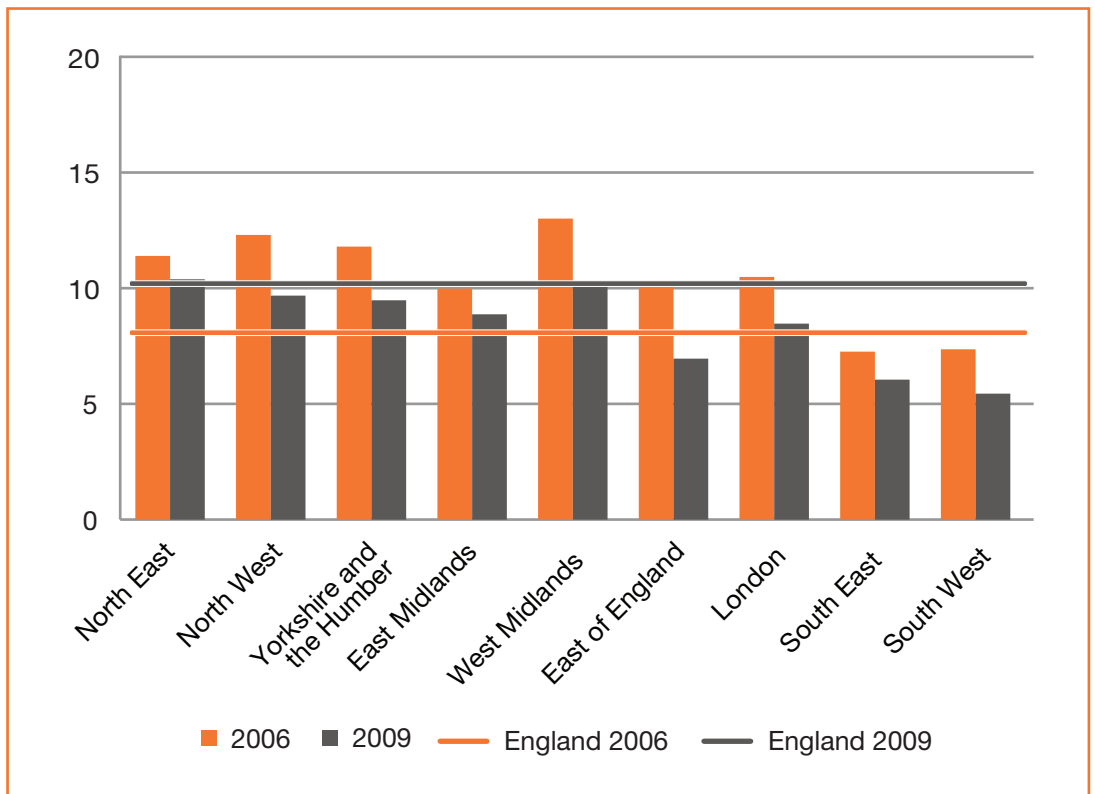
¹¹ <http://www.bis.gov.uk/analysis/statistics/sub-national-statistics/regional-economic-performance-indicators/live-tables/innovation>

Figure 2.9
Total investment by UK-owned companies as a percentage of regional GVA



Source: Annual Business Inquiry (ABI), ONS 2010

Figure 2.10
Percentage of economically active population without qualifications, 2009



Source: BIS, Regional Economic Performance Indicators

Figure 2.9 shows total investment by UK-owned companies in all sectors by region. Across the board, it shows a decline in 2006/07 compared with 1998/99, with the most pronounced reduction occurring in the North East. The reduction in investment as a percentage of GVA in London appears large, but might be partly attributed to the burgeoning GVA growth in the area.

In terms of skills, the North and the West Midlands have traditionally shared a higher proportion of the population with no qualifications. All regions are improving in this respect – figure 2.10 shows the trend for the period 2006–2009. During this time, the English average fell from just over 10 per cent to 8 per cent of the population. The Northern regions remain above the average rate of economically active people with no qualifications – the highest coming in the North East, where it was in excess of 10 per cent in 2009.

The role of place in the growth framework

For the NEFC, a key question for focus is how these trends have interacted in different places to shape economic performance.

Neo-classical economists have tended to focus on the impact of macroeconomic drivers on economic development and have been less concerned about the conditions of specific places. The emergence of the ‘new economic geography’ in the 1990s saw the re-emergence of focus on spatial economic patterns (BIS and CLG 2010, Boshma and Martin 2007), in an attempt to understand the geographical patterns of economic activity and the interaction between places and economic growth, and to explain the often highly uneven distribution of economic activity across space.

Paul Krugman (1991) argued that neoclassical theory offered insufficient insights into the market forces that drive the choices of location of people and firms, and that these choices significantly influence spatial disparities in economic output and outcomes. This idea has become highly resonant in an economic environment increasingly driven by services, access to skills and labour, and innovation, and provides important insights for the North.

By this analysis, proximity and concentration of economic activity are clearly associated with development and growth, favouring dense urban areas in particular. ‘Agglomeration’ describes the spatial clustering of economic activity which is said to offer various benefits, including denser labour markets, economies of scale and knowledge spillovers (Puga 2010, Glaeser 2011).

Agglomeration can also bring negative effects. Congestion, commuting and associated reduced quality of life factors, or reduced profits for firms due to increased competition and higher costs, are all observable disbenefits from agglomeration. Nevertheless, leading spatial economists at the London School of Economics have argued that, in the UK context, London accrues significant advantages from its scale and concentration of economic assets, and that agglomeration explains the steady growth of the economic mass around the Greater South East into the East of England, East Midlands and increasingly into the South West and West Midlands, and the acceleration of that trend over recent years. They have also suggested that other urban centres, particularly those in the North, have yet to achieve the scale required to maximise the benefits of agglomeration (Overman and Rice 2008).

Work by the same team has also prompted discussion about priorities for investment to support a growth strategy for the North. In the field of transport, for example, their work models the economic benefits of a range of investments, identifying how stronger

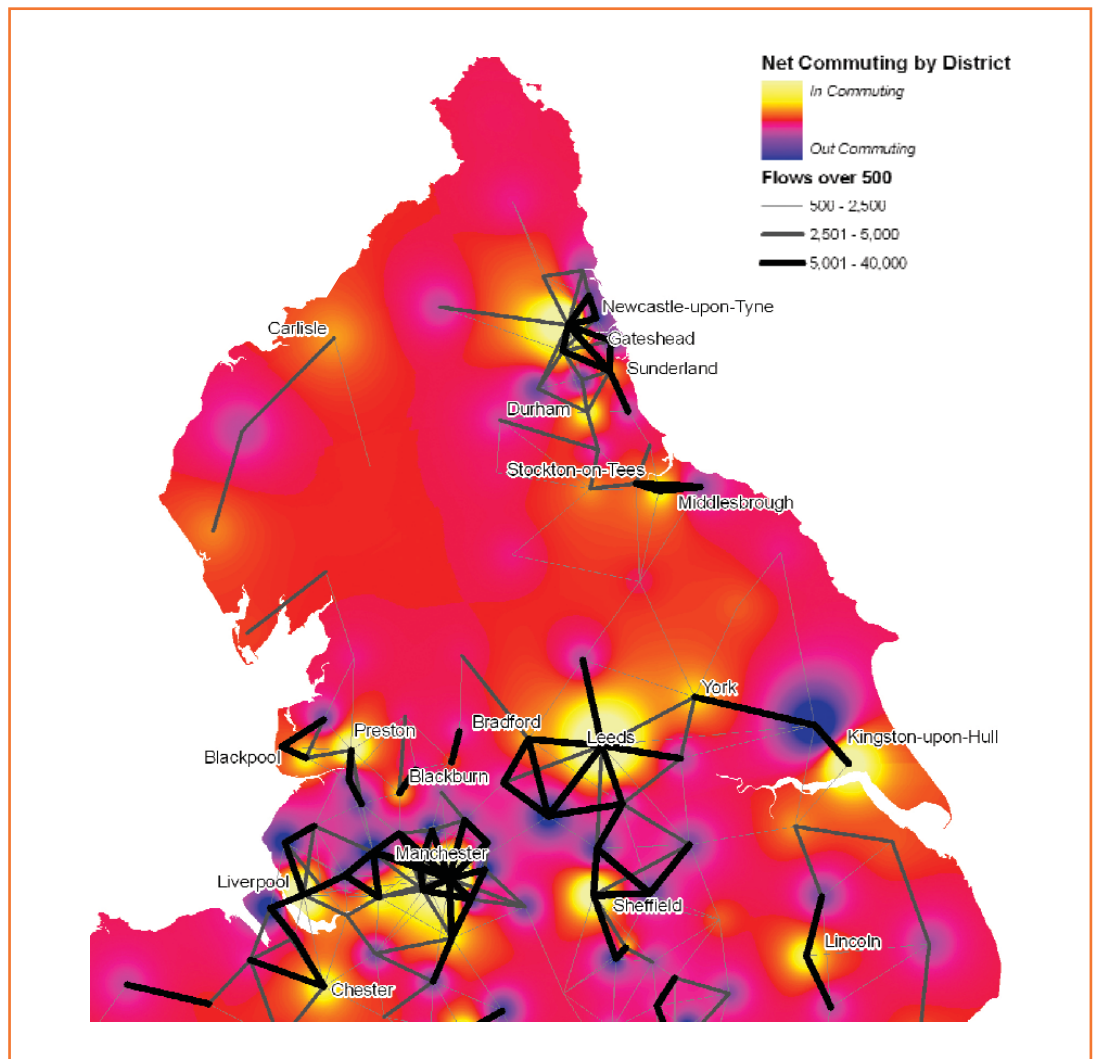
connectivity to London creates benefits for both North and South, but with the lion's share flowing to London. It suggests more benefits would accrue to the North were the northern economy to be more integrated, and highlights the potential for stronger connectivity between the Leeds and Manchester economies to help secure benefits from a more dense labour market and stronger levels of economic activity (SERC 2009).

The North's functional economic areas

Various researchers have examined the current performance of the functional economic areas of the North of England and drawn conclusions about their scale and strength. In their report *The Northern Connection*, two teams from the University of Manchester identified the main urban economic areas in the North of England and their mass and scale (IPEG and CUPS 2008).

Figure 2.11 shows the spread and strength of the labour market for the main urban areas using commuting as a measure of scale.

Figure 2.11
Spread and scale of
the main Northern
urban economies (by
commuting)

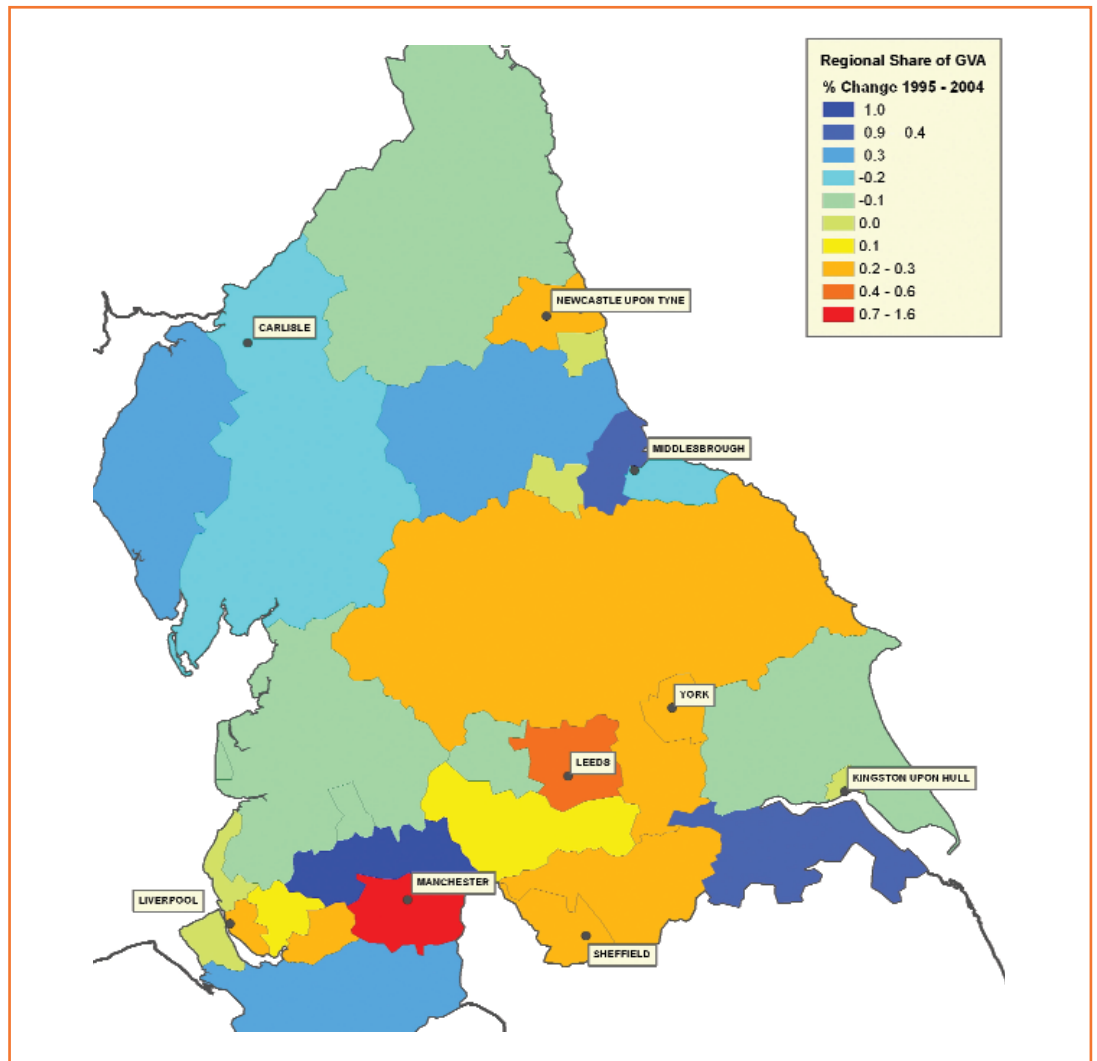


Source: IPEG and CUPS 2008: 9

The Manchester team identified a clear performance hierarchy: Leeds and Manchester performed the most strongly, with Sheffield, Liverpool and Newcastle providing a weaker focus for economic growth. Figure 2.12 shows relative performance in terms of share of GVA in the North (although because of the data issues mentioned earlier this is shown at NUTS 3 levels).

Finally, the report also showed the trend towards increasing integration of key Northern financial and legal services sectors with London and the South East, with headquarters functions increasingly centralised.

Figure 2.12
Change in the share of northern GVA by NUTS 3 areas



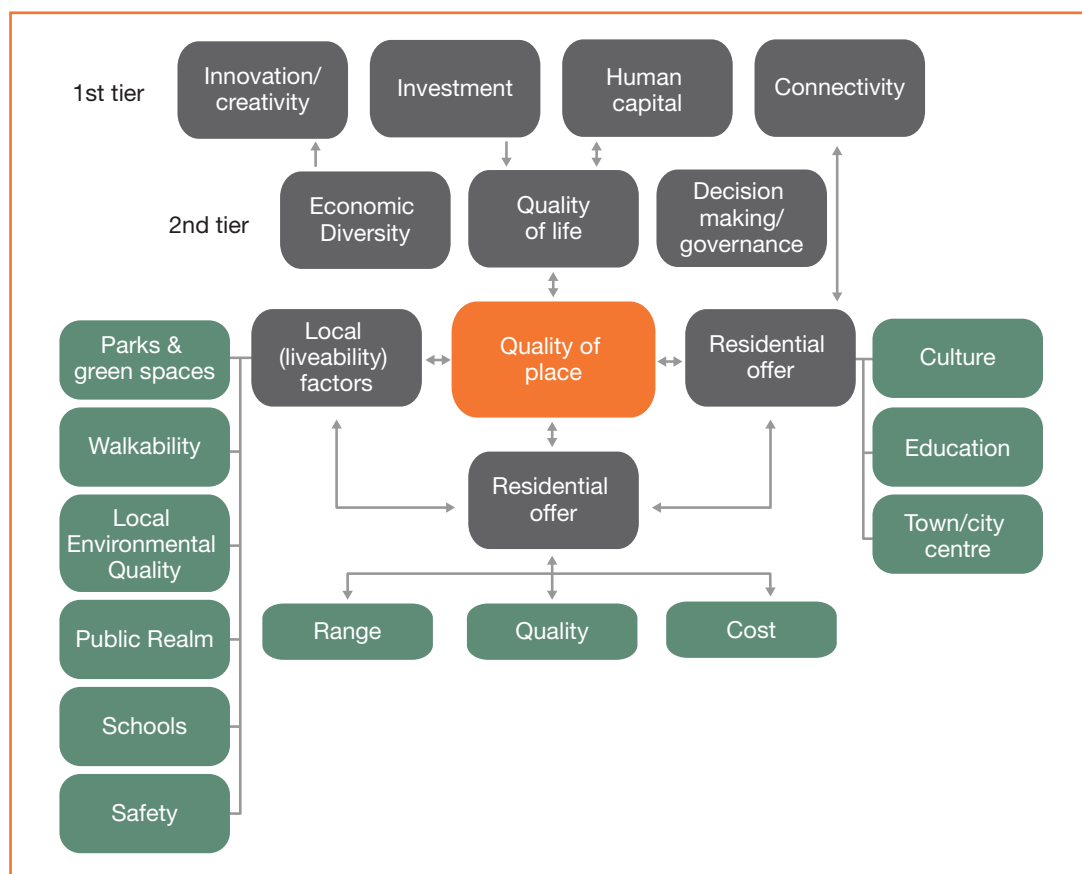
Source: IPEG and CUPS 2008: 20

In work which followed, a team led by the Work Foundation identified the levels of economic interaction within northern city regions, observing varying levels of local economic integration and highlighting local opportunities to strengthen density around local economic assets (Work Foundation et al 2009).

Creating the conditions for growth to prosper in functional economic areas

In terms of creating the conditions for growth, looking at the interaction between economic development and place regeneration, there has been significant focus on the role of the wider context within which economic activity takes place. Factors such as availability of land for development, the infrastructure to enable access to markets – including the state of development of key transport (The Northern Way 2007–2009)¹² and digital connectivity (Richardson and Tranos 2010) – the attractiveness of housing stock and wider environmental factors have all been explored and assessed for their influence on the economic performance of the North (Tribal 2009). The role of ‘quality of place’ in the North, and the residential offer specifically, has been a focus, as illustrated in figure 2.13 below.

Figure 2.13
The role of place in supporting economic development



Source: Reproduced from Tribal 2009: 9

Research found that, on the whole, the residential offer in much of the North has not adequately supported the demands of the economy, with more needing to be done to provide the range, quality and affordability of homes required to attract and retain the key and most mobile segments of the labour market: knowledge workers, graduates and family-builders. As the 2008–09 recession depressed credit and investment, this demand pressure was increasingly focused into the rented sector.

¹² See also Harding and Rees 2010 and Overman et al 2009

The work proposed the importance of an integrated approach to economic development and planning, with coordination required at different scales around the housing market and wider infrastructure and a stronger understanding of the role of collaboration around functional economic areas.

Growing lagging regions

This section has aimed to provide analysis of the North and its economy, in the context of the main performance frameworks set for regional economic development within the UK economy.

Emerging international work is looking at a wider evidence base to help shape the framework for understanding current performance, and also for identifying priorities to grow regions like the North.

Evidence across the OECD member states suggests that there is both divergence and convergence occurring in different groups of regions in different stages of economic development, and the international research aims to identify the reasons for this.

In *How Regions Grow* (OECD 2009), an analysis of the decade 1995–2007 highlighted that urban areas had the highest per-capita income relative to the OECD average (24 per cent higher), while rural areas close to a city had the lowest (21 per cent below OECD average).

However, the rate of growth in those rural areas close to a city was the fastest (albeit from a low base) at 2.33 per cent annually, while remote rural areas had an equivalent rate of 2.24 per cent. By contrast, growth in urban areas averaged out at 1.93 per cent, with intermediate regions growing the slowest, by 1.83 per cent per annum.

These heterogeneous results suggest that there had been patterns of both convergence and divergence in urban areas, while intermediate and rural areas had experienced convergence. The research also suggested a basis for international comparison and, in 2010, the OECD published a taxonomy of regions based on their relative economic performance in terms of GDP per capita and the rate of growth, both in the context of their national economies and in relation to other OECD regions in a relatively similar position (OECD 2010).

This comparative framework provided a context in which to compare and contrast internationally and to reflect on the growth performance of regions at comparable states of development. The Northern Way sponsored a further programme of research by the OECD team that looked in particular at the comparative performance of lagging, quasi-lagging and leading regions, three groups within the taxonomy based on their 1995 level of GDP performance where:

- Lagging regions: GDP less than 75 per cent of the national average
- Quasi-lagging: GDP of 75–100 per cent of the national average
- Leading regions: GDP greater than the national average

In this taxonomy, all three regions of the North of England would be classified as **quasi-lagging**.

Furthermore, these three types of regions were arranged in two different sub-groups, based on whether they were either (a) growing over the monitored period 1995–2007, or (b) underperforming in relation to the national and the OECD-average rate of GDP growth.

The Northern regions in this context would be classified as **underperforming**.

The overall distribution was as follows:

Table 2.2
Distribution of OECD
Territorial Level 2 (large)
regions, 1995–2007

	Growing	Underperforming
Lagging	11% (or 37)	5% (or 15)
Quasi-lagging	19% (or 61)	32% (or 103)
Leading	17% (or 54)	17% (55)

Source: OECD 2010

Having established a basis for comparison of OECD regions, and noted the divergent trends, the OECD work has undertaken analysis of a range of economic indicators collected across member states to isolate the key factors which have influenced growth performance.

Overall, although the results were different for different types of region, the following five factors were found to be most relevant for regional growth:

- infrastructure
- human capital
- labour market density
- innovation
- agglomeration and connectivity

For quasi-lagging regions that are growing, the greatest effect was associated with three key factors: higher infrastructure investments, the capacity to mobilise the labour force and the raising of levels of innovation, in both public and private R&D.

In general, the research found that **human capital** will bring robust positive effects to regions in all stages of development, with key issues linked to increasing the proportion of people who go on to study towards a post-16 qualification, as well as increasing participation in higher education or attracting and retaining university graduates.

Furthermore, in relation to quasi-lagging regions, the work suggested that lowering the stock of low-skilled workers (rather than necessarily improving the stock of high-skilled ones) is a key objective, maximising levels of labour market participation, addressing unemployment and promoting population density.

An increasing level of both government and private sector **R&D expenditure** was associated with positive growth within quasi-lagging, growing regions, providing the basis for economic diversification and growth.

The impact of **infrastructure investments** is not straightforward. Lagging regions, those with the lowest level of development, only benefit from it when the other factors discussed here are present also. For quasi-lagging regions, such as the Northern regions and most other UK regions, infrastructure results in positive regional growth in its own right, but is most powerful when other variables are present.

For leading regions, the effects of infrastructure are more nuanced and can lead to both negative and positive impacts on regional growth, with signs of inefficiency appearing as the scale of an agglomeration reaches 7.3 million people (Garcilazo 2010).

The OECD also analysed the contribution that lagging areas, such as the North of England, which are widely regarded as ‘underperforming’, make to national economic growth. In the UK, the areas defined as quasi-lagging together accounted for 57 per cent of national growth in the monitored period 1995–2007 – this is in clear contrast with the 43 per cent that accrued from leading regions, limited to the three regions of the Greater South East of England.

France may provide an interesting comparator, as it also has a monocentric national economy, focused heavily on the Paris agglomeration and the Île-de-France region. The contribution of France’s quasi-lagging regions amounts to 68 per cent of the national economy, compared with 32 per cent from the leading regions. Compared with the UK, France has a considerably higher proportion of *growing* quasi-lagging regions (39 per cent) than underperforming regions in the same category (29 per cent). In the UK, the equivalent proportions are 11 per cent and 46 per cent respectively.

3. WHAT INTERVENTIONS HAVE AIMED TO ADDRESS THESE ISSUES OVER THE PAST DECADE?

The information reviewed in this paper focuses on a period when the regional development agencies (RDAs) were central to efforts to reduce regional disparities and promote growth and development – although over the last three years their focus shifted markedly, firstly to support their regions through the recession and defend gains at a time of declining investment and more latterly to manage down their commitments in preparation for closure in April 2012.

In addition, a range of other policy measures were implemented, notably through the Department for Communities and Local Government (CLG) at the local and neighbourhood level and by Business Innovation and Skills (BIS) on national and regional growth drivers. The Department for Transport has also invested on both strategic routes and connectivity and local transport systems.

CLG's focus has been on a group of 'area-based initiatives' designed to tackle multiple deprivation and worklessness and close the gap between the most deprived communities and the rest of the country. These strategies included the New Deal for Communities¹³ and the Neighbourhood Renewal Fund, subsequently superseded by the Working Neighbourhoods Fund.¹⁴

These programmes, which aimed to support local regeneration, have now come to a close, and their evaluations show mixed results. A snapshot summary would say that while progress was made in the most deprived neighbourhoods across a variety of indicators (including health, crime, educational attainment, safety, environment and work), more prosperous areas improved faster and there was not a closing of the gap in living standards.

At the regional level, the national government's drivers of productivity framework heavily influenced the tasking framework for the nine RDAs, which were deployed to seek to achieve two key goals: to improve overall economic performance and to close the gap in economic performance between the North and South. Their role was to improve levels of economic growth and investment, by promoting economic regeneration and infrastructure investment and improving employment, skills and entrepreneurial activity. Over time, their scope evolved to include responsibilities for rural areas and a strategic approach to the development of the region, with the aim of shaping the efforts of all partners, through integrated regional strategies.

The national evaluation of the RDAs by PricewaterhouseCoopers assessed their impact in improving the performance of their respective economic areas (PwC 2008). It noted strong additionality in a number of areas, particularly regeneration and land reclamation, and in promoting labour market effects in employment and skills. PwC reported that, since their creation in 1999 up to and including 2006/07, the RDAs collectively spent around £15.1 billion, created or safeguarded nearly 213,000 jobs, and helped over 403,000 people with skills development. Over 570 hectares of brownfield land was remediated, over 35,000 businesses were assisted, and over 8,500 new businesses created as a result of their activities.

The wider return is summarised in table 3.1 below.

Overall, their impact on regional GVA has been described as modest, but it has also been recognised that the RDAs remit in terms of resources, compared to other public resources

13 See CLG 2010a

14 See CLG 2010b

in those regions, was limited. Beyond direct GVA impacts, PwC judged that the RDAs' social, environmental and strategic impact has been significant.

Assessments of the performance and the legacy of individual RDAs are also available, and there is significant variation across the network.¹⁵ A number of the RDAs have prepared their own statements and evaluations seeking to capture the learning from their work.

Table 3.1
Summary of RDAs' achieved outputs and additionality (2002/03–2006/07)

Theme/output	Number of evaluations*	Expenditure covered by evaluations (£m)	Gross outputs	Net outputs	Additionality (%)
Jobs created/safeguarded	177	5,189.1	471,869	212,873	45
People assisted into employ.	23	231.0	59,119	30,375	51
Skills assists	46	2,553.8	716,389	403,535	56
Businesses created	63	3,359.1	17,924	8,519	48
Businesses assisted	30	563.9	90,564	35,017	39
Land remediated	28	1,360.5	810.4	572.2	71

Source: PwC 2008: v

* Some evaluations have assessed more than one output and are, therefore, counted more than once in the table.

The PwC evaluation highlighted the importance of 'strategic added value' through the work of the RDAs. This included coordinating and influencing the work of other agencies to secure focus on the strategic issues of supporting business growth and encouraging innovation. PwC judged this to be an effective intervention in terms of leveraging and creating the potential for longer-term impacts.

However, the RDAs were found to have had less direct impact on business growth and closing the gap in economic performance. The growth figures reported elsewhere in this paper show clearly how the performance gap measured at regional level continued to grow (see figure 2.1).

Given its importance to growth, a regional review of innovation in the North, led by the OECD, examined the North's performance in supporting innovation, both in terms of direct investment and in the facilitation of innovation by a wider range of business and agencies (OECD 2008).

It found an increasing gap between the top and bottom of science, technology and innovation hierarchies for knowledge-based development. In the review, the North of England was found to be disadvantaged in terms of national–regional relationships and the capacity and resources to address the main barriers. Comparatively speaking, this included a relatively low starting point in terms of the economic and innovation infrastructure, lower levels of national support for subnational developments, less delegated capacity and limited fiscal autonomy, compared with OECD peer regions.

The OECD also observed that the North did have significant innovation assets and strong performance in the higher education institution (HEI) sector, in particular in the larger urban economies of Manchester and Leeds, and the knowledge-intensive sectors they contain. Industries such as pharmaceuticals, fine chemicals, nuclear, advanced materials and precision engineering have all shown the capacity for world-class innovation (Perry 2008).

¹⁵ See for example Shared Intelligence 2008

The OECD proposed that more needed to be done to promote these assets and take advantage of them, both for commercialisation and growing high skill employment.

The issue of policy coordination was widely recognised as a challenge for the North, in particular between economic development and spatial planning. The Sub-National Economic Development and Regeneration Review (SNR)(HM Treasury, BERR and CLG 2007), aimed to provide new mechanisms for securing this, at both regional and city-regional level, and to provide the machinery for stronger collaboration with central government departments. While parts of this package of reforms were put in place, such as city-region pilots in Manchester and Leeds formally announced in the 2009 budget, the groups of reforms were an early casualty of the Coalition government elected in 2010.

However, while the present government has significantly trimmed back these institutions and the wider regional development agenda, it has based its approach at least partly on the same evidence base – promoting the need to focus economic development activities on local ‘functional economic areas’, and seeking to address this accountability gap by mobilising local government and business to work together through local enterprise partnerships (LEPs). The primary focus of the LEPs has been on the functionality of local labour and housing markets.

Responsibility for wider inter-local functionality and issues of scale have been centralised to the national level, except where LEPs choose to cooperate at larger scales.

The Coalition government has explicitly recognised the issue of imbalance, which was one of the key motivators of the previous government’s agenda, and has adopted a language of rebalancing to frame the approach. Within their programme of rebalancing are a number of inter-related themes:

- Diversification of the sectoral mix of the economy – a desire to shift from public to private (especially in the context of austerity), from services and consumption to manufacturing and export
- Addressing territorial inequality – aiming to build ‘lagging economies’
- Rebalancing responsibility between national and local economic actors – introducing a localism agenda for the decentralising of responsibility from Whitehall and the regions to local authorities and partners within functional economic areas.

4. FUTURE DYNAMICS

This paper has focused on the performance of the North over the last decade, but the Northern Economic Futures Commission is – as its name suggests – firmly focused on the future. As the North faces up to a number of key challenges and opportunities, including a range of economic, environmental and social pressures, it is worth reflecting on the extent to which the North has been able to futureproof its development over the last decade.

The institutions which have been working so hard over the past 10 years have provided a focus for thinking about, for example, the economic opportunities emerging from the low-carbon energy sector, the potential to generate economic growth through a focus on services to an ageing population, and how to attract investment into new manufacturing processes and products. This has been enabled by a clear leadership role and good relationships with industrial and academic partners. It has also been supported by the development of a strong economic evidence base.

They have also worked to promote international contacts into European and emerging economies, to ensure that the profile of the North is high with European policymakers and international investors, and to prepare the ground for such investors.

It is, perhaps, too early to fully evaluate the benefits of all these activities, although PwC has already reported positively on the strategic added value of the RDAs. However, the NEFC seeks to ensure that the North can benefit from these global economic trends and pressures in the future.

5. CONCLUSIONS: ISSUES FOR THE NEFC

Drawing together themes from a paper as wide-ranging as this one is challenging. However, it is worth highlighting a few key questions which could support further discussion and provide a focus for future research priorities:

- **Gaps in the knowledge base**
This paper has provided a very brief review of some of the existing evidence base. Where does the evidence base need to be further understood and what should the focus be?
- **Measuring performance**
How should we measure our performance? Are we aiming for the right goals, especially given the nature of the future challenges, and what should be the main indicators? How do we perceive the relationship between economic impacts: growth, sustainability, fairness, accountability, quality of life? What should be the basis for comparison with other places? Does comparison against national averages or regions within the national context help, or should we be looking for international comparators, or both? Where would we look for international comparators?
- **Timeframes**
What timeframe should we aim to work to? Is the NEFC thinking over the short, medium or long term? How long does it take for an intervention to make a difference?
- **Strategic priorities and overcoming barriers**
Are the priorities to support growth in regions like the North sufficiently clear and focussed? What are the most significant constraints on the North's ability to move forward? How should we think about and focus on the different places in the wider territory, and how could dialogue be led and managed?
- **Scale of intervention**
What does the evidence suggest the relative contribution should be of national and sub-national policies to the development of the North of England? Where does the current evidence base take us in terms of clarifying a strategy for the North? Are there areas where we need to further understand disagreements or conflicting evidence?

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