

# **Local Long-Run Growth Evolutions Across Britain: A Policy Response?**

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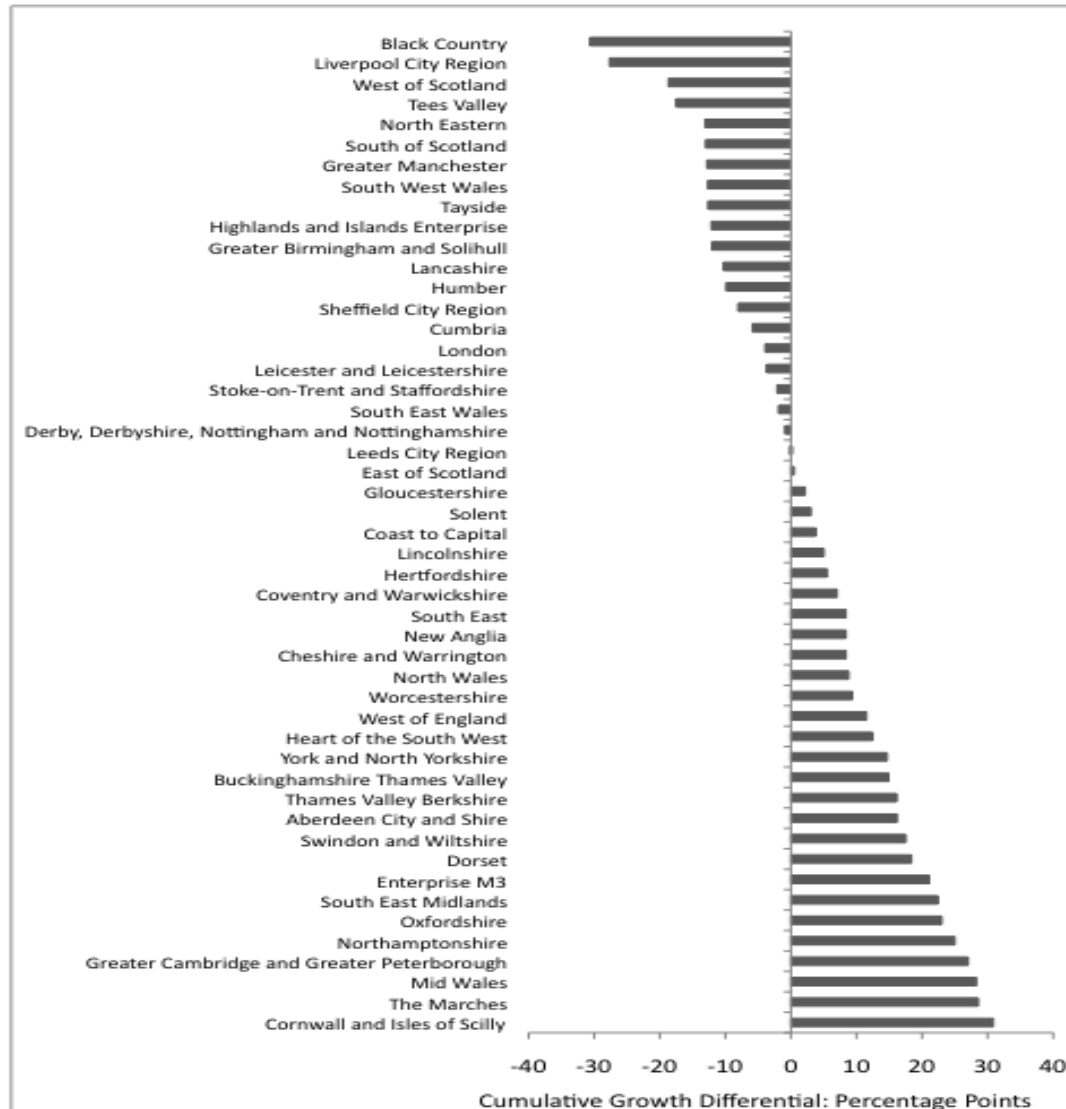
# Key Issues

- Dynamics of long run local growth poorly understood;
- Relatively untouched by empirical investigation;
- Local Enterprise Partnerships (LEPs) have the objective of encouraging growth at local level;
- This research seeks to understand more about the determinants of local growth and the role for policy;
- Particularly the contribution of industry mix and agglomeration.

# Cumulative output gaps

Blanchard and Katz (1992); examine differences in US state-level output and employment growth by deriving the cumulative annual change in the log of output (or employment) minus the cumulative annual change in the log of growth of output (employment);

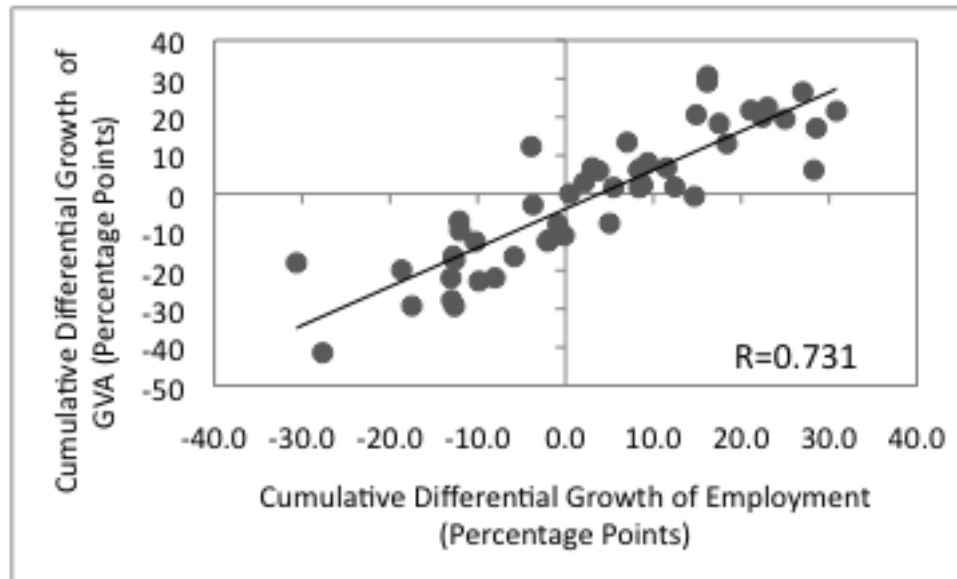
# Unequal Growth Across the LEPs: Cumulative Differential Growth in Employment (Percentage Points), 1981-2012. Source: Data from Cambridge Econometrics



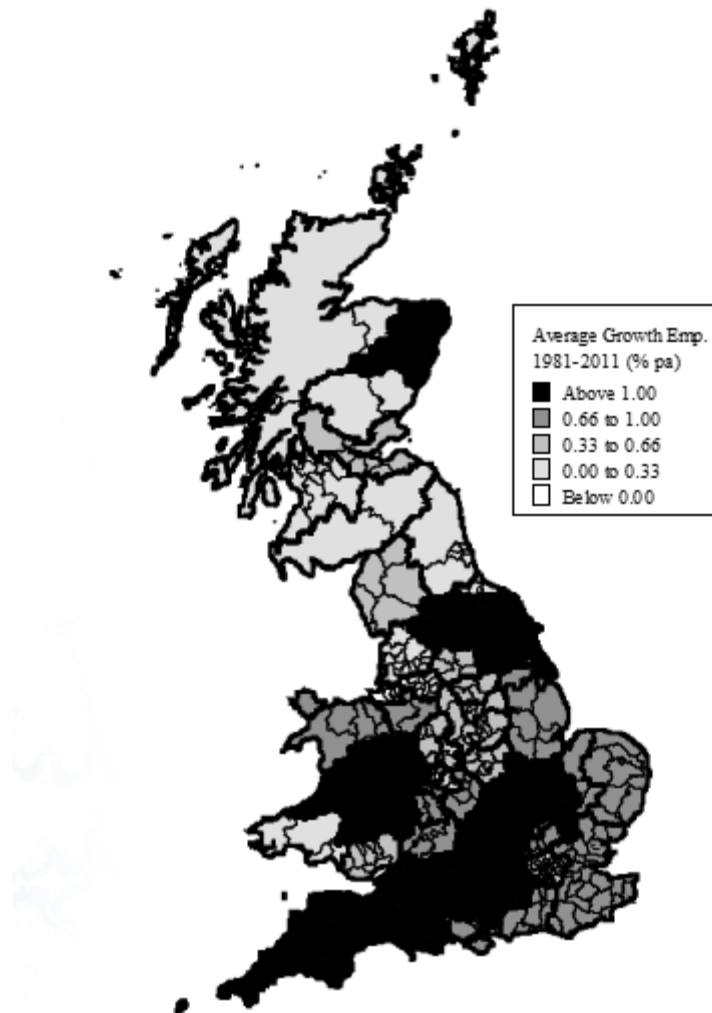
# Variations in Local Growth

- Considerable variation in local growth;
- 1981-2011 some LEPs growth 3% others below 1%. Northampton LEP real GVA increased 150% over the entire period. Liverpool LEP by a mere 28%. These are significant differences. The physical distance between the two areas is only two hundred miles but in economic terms they are poles apart;
- Performing areas had an annual increase in their employment of around 1-1.5% per annum. The weakest areas have hardly grown at all, and in Liverpool the employment base actually declined.

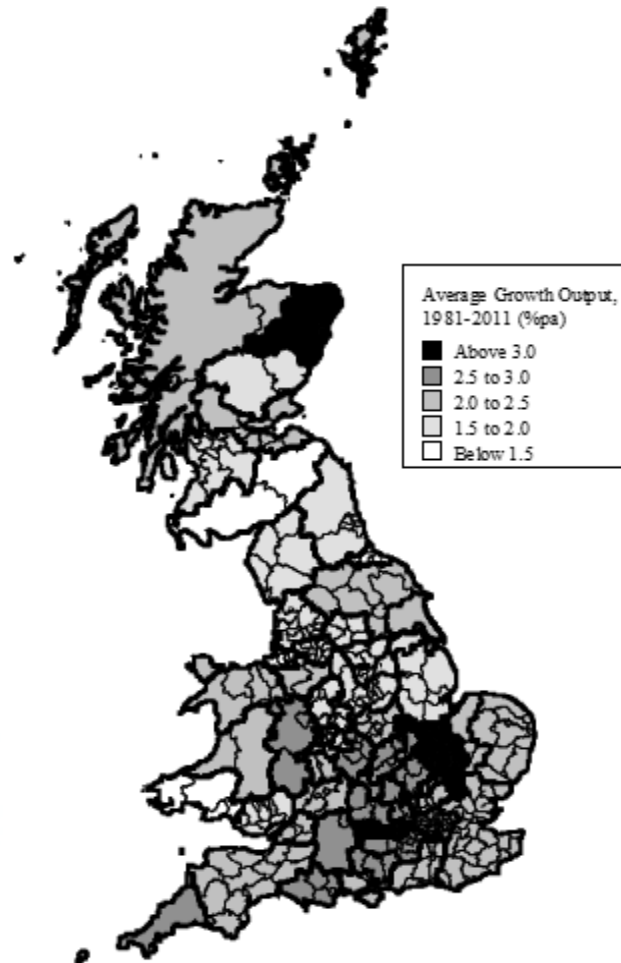
**Figure 2: Cumulative Differential Growth in Gross Value Added and Employment across LEPs, Percentage Points, 1981-2012. Source: Data from Cambridge Econometrics.**



# Employment growth in Great Britain over the period 1981-2011



# Overall Output Growth across Great Britain 1981-2011

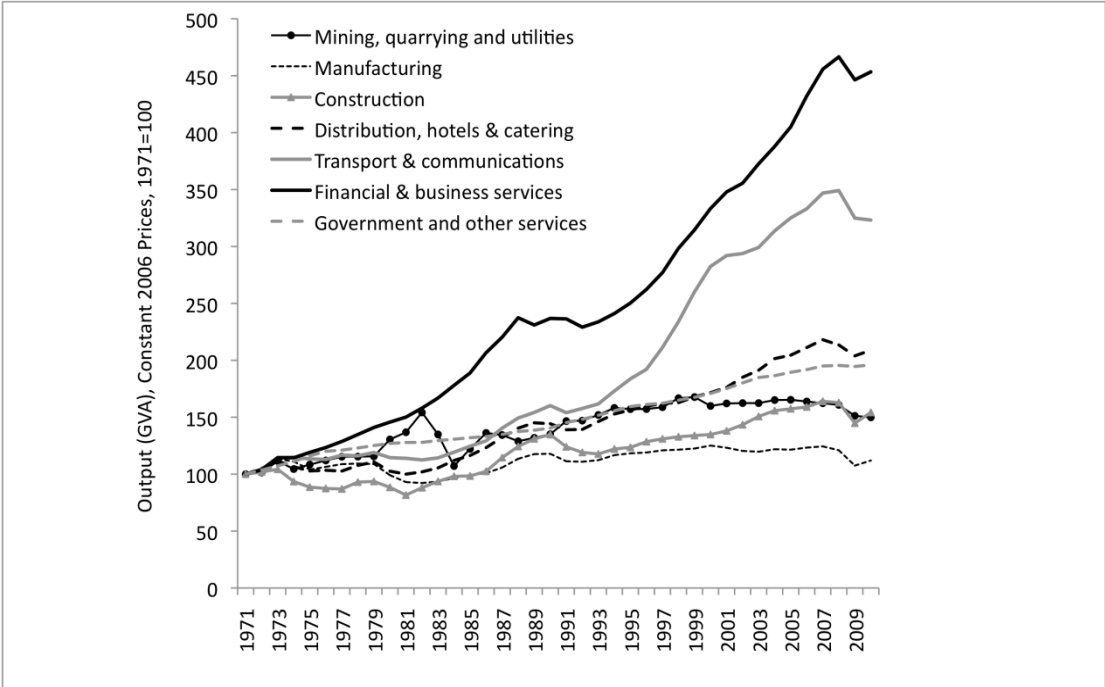




# Factors underpinning geographical variations in economic growth: the role of industrial structure

- Local economic growth shaped by factors national or international in their origin and scale of impact. However, their impact is mediated and conditioned by *local economic structures* and processes;
- There has been substantial variation across economic sectors over the period 1971-2010. Substantial manufacturing decline;
- In contrast, there has been very significant growth in the financial services sector (350% above its 1971 base). Local economies with a strong presence in that sector have benefitted from this expansion, with the most notable example, being London.

# Sectorally Unbalanced Growth in the UK Economy, 1971-2010



# Role of industrial structure

- The consequences of Britain's' relative decline in manufacturing felt the most intensively in country's long-established industrial cities; 'smoke-stack' industries. Over the past fifty years the UK has lost virtually all of these industries;
- The contribution of industrial structure on local economic growth can be examined using a dynamic shift share decomposition procedure (Gardiner et al (2013)).

# Dynamic Shift Share

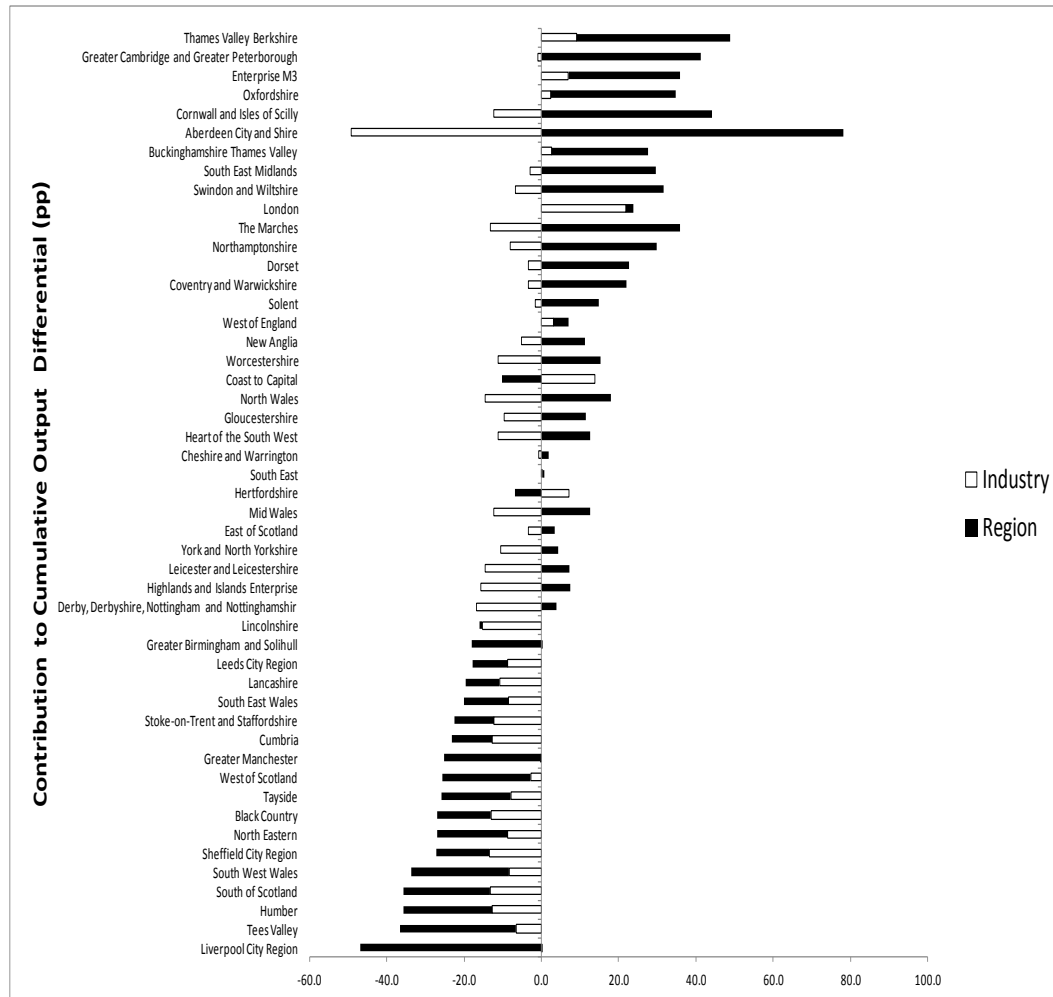
The classic shift-share approach is to decompose a temporal change in a variable into three additive components:

- (i) National share (NS); the change that would occur if all regions' sectors grow at national rate
- (ii) Industry mix (IM); the change that would occur if all regions' sectors grow at national sector rate (minus, or conditional on, the national share effect);
- (iii) Regional shift (RS); the difference between the actual change and the sum of national and industry shifts, i.e. a residual designed to capture region-specific factors such as local policy, competitiveness, etc.

# The contribution of economic structure

- Industrial structure effects, while significant in many local areas, are generally far outweighed in importance by locally-specific factors;
- Locally-specific ‘shift’ effects are attributed to ‘competitiveness’, that is to a range of local factors that tend to raise or lower the performance of particular sectors in a local area;
- Whilst the industrial structure effect captures the extent to which a locality has above average shares of nationally faster and slower growing sectors, the ‘competitiveness’ effect reflects the extent to which locally those same sectors are growing even faster (or more slowly) than their national counterparts.

# Contribution of industry mix and locally specific factors to long-run output change 1981-2012



# Possible determinants of the local 'competitiveness' component

The local shift or competitiveness component has been responsible for an increasing share of local growth. It captures a local 'competitiveness' effect and may thus reflect a number of locally-specific factors like;

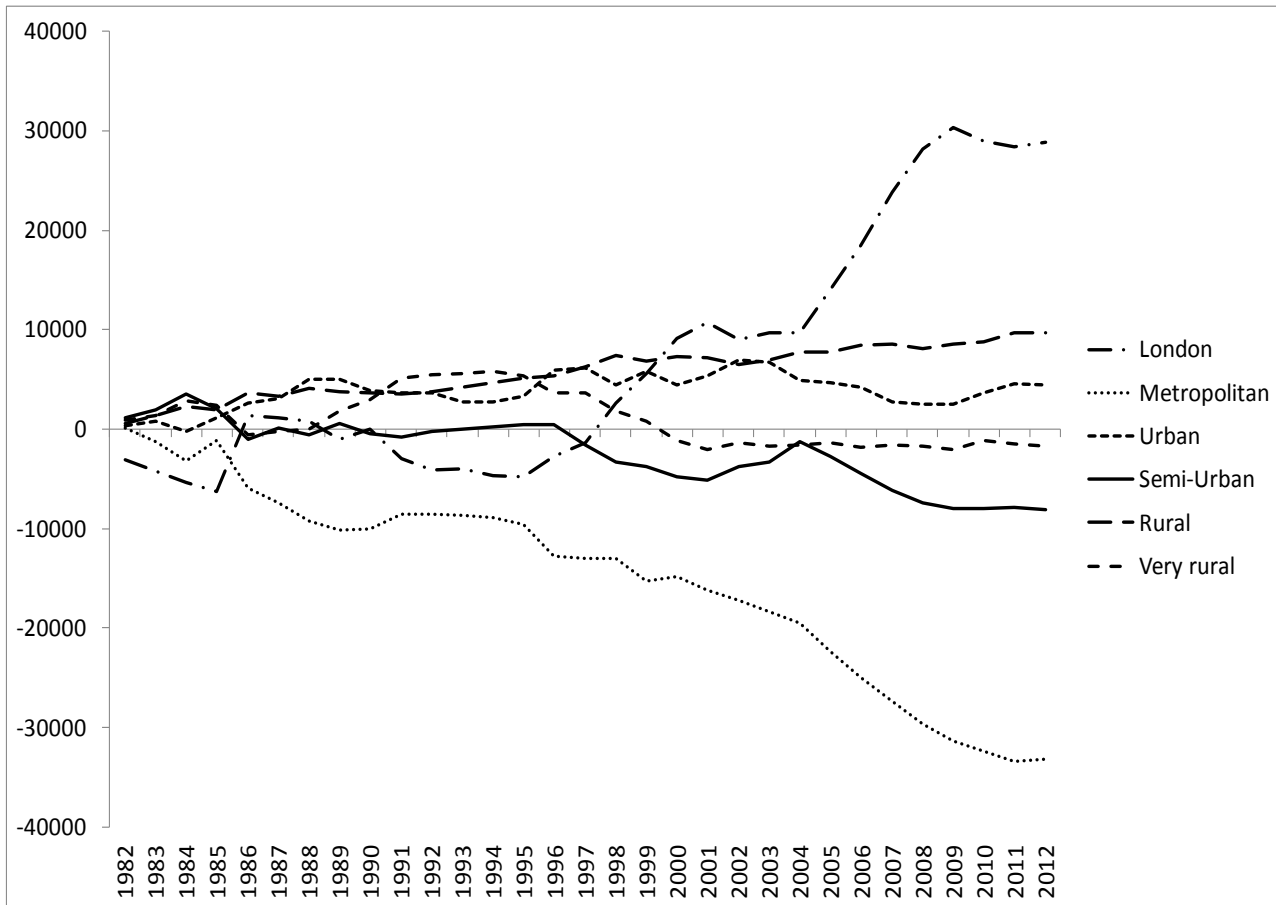
- positive (or negative) externalities of various kinds, including the skill level of a region's workforce;
- local market size effects, knowledge spillovers, comparative advantages in access to capital and the;
- effects of specific government policies, as well as other functional and competitive differences between firms within the same industry sector;
- Complexity of determinants local growth suggests unified theory unlikely;
- Causal factors likely to alter in relevance and intensity through time against a backdrop of the increasing pace of economic and technological change;

# Cumulative output gaps; the urban rural dimension

Inevitably degree of arbitrariness in the approach but we derived six broad groups; namely London, Metropolitan, Urban, Semi-Urban, Rural and Very Rural. These were based on their population density indexed relative to Great Britain



# The growth of output relative to the national average by LEPs grouped according to relative effective population density.



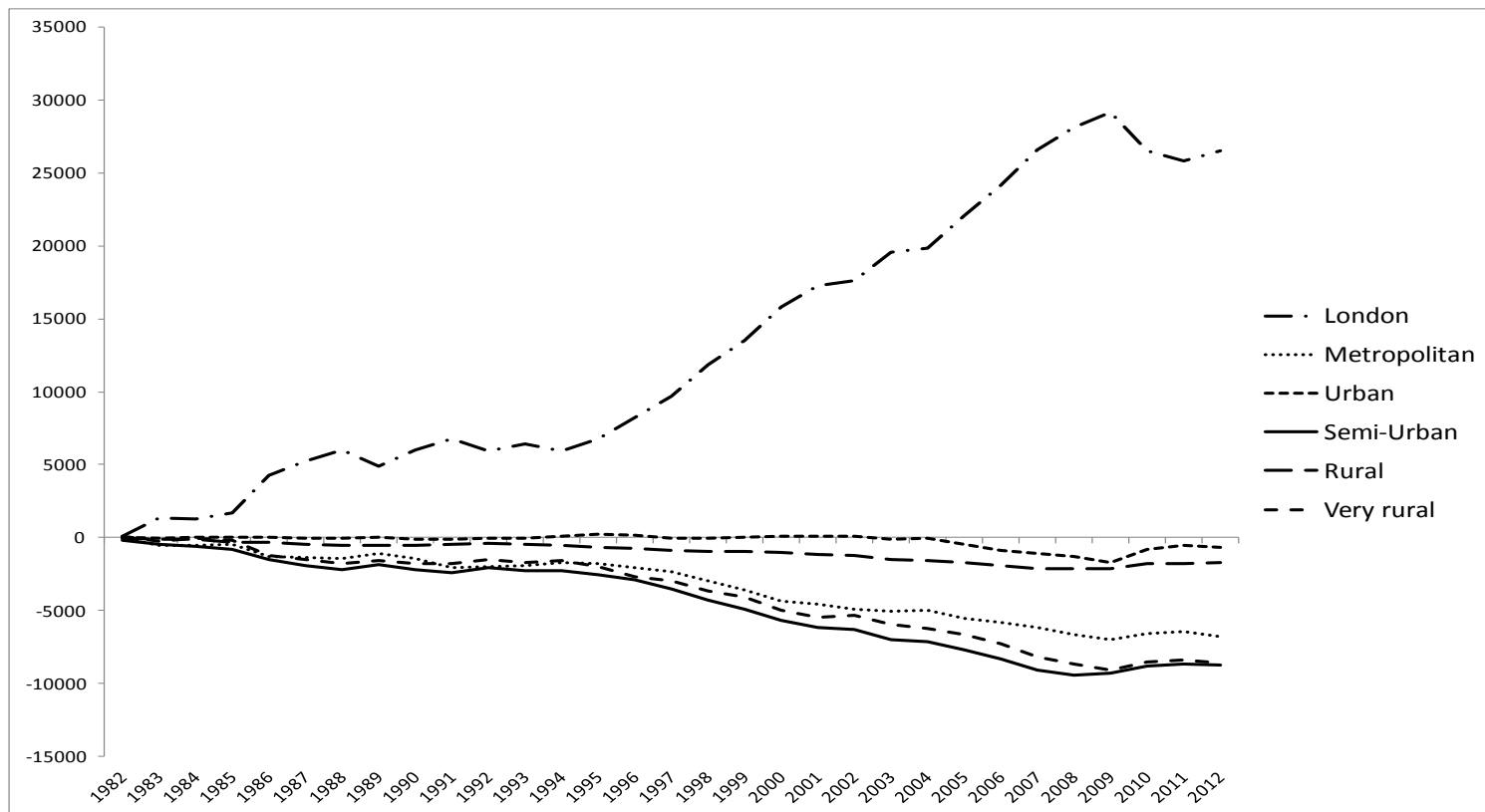
# Cumulative output gaps

Metropolitan areas have seen relative decline in their output, whilst the rural areas have experienced the opposite;

London declined in the early part of the study period in line with the rest of the most urban areas but then experienced a turnaround;

In general the Metropolitan areas have tended to suffer from having an adverse economic structure. Unlike London which has benefitted from positive structural effects, particularly associated with financial services and banking.

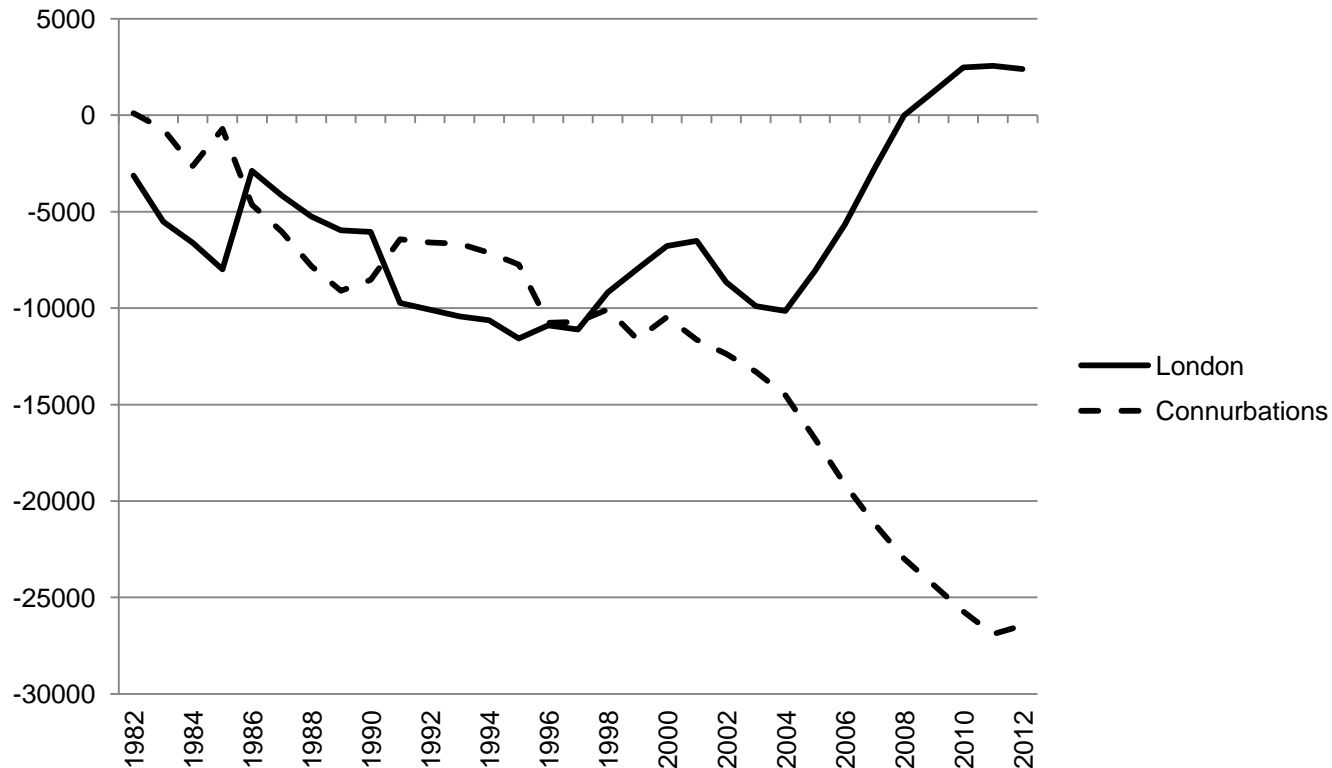
# The growth of output relative to the national average by LEP's grouped according to relative effective population density; the contribution of industrial structure



# The growth of output relative to the national average by LEP's grouped according to relative effective population density; the contribution of the local growth component



# The growth of output relative to the national average for London compared to the rest of the British conurbations; the contribution of the local growth component



# Key issues

Understanding of the factors responsible for differences in local economic growth is relatively limited;

The new localism agenda (BIS, 2010) and the roll-out of Local Enterprise Partnerships across England have reinforced the need for more research in this important area;

The contribution of economic structure has tended to decline over time and more of the relative difference in growth between areas is to be found in the local 'competitiveness' component;

It appears that the 'urban rural shift' has continued largely to the present day. The large English conurbations have continued to experience an adverse local growth contribution relative to the less urban and more rural areas in England;

The big exception, and a complete reversal of the position in the 1980s, is London.

# Key issues

The relatively poor performance of the large urban areas outside London in their local growth component suggests that whatever the positive contribution to their growth made by agglomeration economies there are other factors that are still constraining their growth;

History matters and their problems reflect the difficulties they have faced in adjusting their resource base from its predominantly industrial past;

London has been able to adjust relatively more quickly in this respect aided by the growth of its financial and business services sector, and other advantages including easier access to finance, a much higher per capita expenditure on infrastructure, a higher degree of political influence on and support from central Government.

# Key issues

Local economic growth has varied considerably across LEP areas;

The position of the English large conurbations other than London is a particular source of concern;

The priority for policy development is to move away from the temptation to rely on simple recipes such as industrial mix or agglomeration and city size, and to better understand the causes of local competitiveness effects with the goal of introducing measures that stimulate and raise these effects, particularly in large urban areas outside of London.



An appropriate policy response

What do we know from the  
past?

# LESSONS FROM PREVIOUS POLICY INITIATIVES IN THE CONTEXT OF THE LOCAL ECONOMIC GROWTH AGENDA

The balance of the evidence from previous area based initiatives is that:

- Enhancing the ***core competencies or attributes*** of the area so that it was a relatively attractive place for businesses to want to invest in and people to live in;
- Bringing together the relevant ***agents of change*** from across all sectors be it businesses, the government, voluntary sector stakeholders or residents to work together to address the problems concerned and;
- Doing so by adopting a ***strategic*** approach.

# The key importance of effective partnership working and leadership

**There was no one-size-fits all format to successful partnership working. However, some common issues stood out:**

- Avoid leaving-out partners and also too dominant partners;
- Avoid re-inventing the wheel;
- Good partnership working required officers experienced in local growth priorities, objectives and regeneration 'speak'. There was a shortage of suitable qualified staff virtually across the board;
- partnership had to be clear about its key objectives and how they may 'fitted' with wider goals of the mainstream providers/emerging policy items;
- Ensure geographic representation; strong secretariat. Policies drafted at one spatial level had to be customised in their delivery to reflect circumstances on the ground.
- Where existing partnership structures were weak it took time and resources to build capacity;
- The partnership required effective monitoring and reviews procedures that informed the partners on a regular basis as to progress against scheme targets.

# Key features and interfaces of particular importance

- *Ability to lever-in private sector resources;*
- Geography mattered-joining-up between areas in the labour market;
- Combining physical regeneration (e.g. developing sites, refurbishing buildings) with people related regeneration (e.g. providing skills training, community facilities);
- Forging transport improvements and other links between deprived areas and elsewhere where employment opportunities were available;
- Providing premises and support services to encourage local small businesses and self-employment;
- Bringing about changes in housing tenure and, in particular, securing the underlying conditions for suitable profitable private sector house building;
- Land and property market interventions were of central to the local growth challenge, particularly in the older urban areas because they enhanced quality of life, external image and visual appearance.

# But limitations.....

- Unrealistic expectations about what could be achieved;
- Poor appreciation of the problem and how it was changing;
- Area based regeneration only operated at the **margin** to bring about change;
- Differences in ability to lever resources from public/private sector so that required **thresholds** could be attained;
- Thus, often insufficient **leverage** given the scale of the challenge and the **linkages** that exist between the declining area and its surrounding economy;
- Mixed success in getting business/mainstream service providers and households to put more investment into under performing areas;
- **Incentivisation** has often been too weak, too diffuse or insufficiently targeted;
- Insufficient attention given to **capacity** to deliver.

# Limitations (continued)

In some places the relevant outcomes have not changed enough;

As a result;

- Business/residents have remained disillusioned (policy seen as a 'quick fix');
- External perceptions remain adverse;
- Unattractive place to acquire housing;
- Public sector intervention consigned to defensive expenditure, in some places public sector response continues to be overwhelmed by the breadth and depth of the problems.

# Limitations (Continued)

Inadequate understanding of how places relate to other places and the dynamics of the local economy;

- Displacement;
- Leakage;
- Population churn



# Features of the New Order

- Powerful global currents are changing economic and social systems in cities and regions around the world;
- Focus on need for multi-sectoral collaboration, between business, government, academia and the community and an exploration of the forms that might take. Redefining both civic leadership and the institutions through which ongoing collaboration occurs;
- Redefinition of the critical geographic units – focus on the city-region;
- Ensure land use planning and property tax revenues are local and aligned;
- Role for transformational infrastructure;
- Universal focus on the connections between knowledge centres and knowledge-driven business;
- Attention to the Regional Innovation System;

# Features of a new policy agenda

- Recognising ‘the interplay between physical capital, human capital and the business environment’, recognising the ‘benefits of strong interaction between different types of regional assets’. (OECD, 2009);
- Encouraging growth from within and understanding how history and geography shape the ability of a region to *adapt* to economic change;
- Sustained and substantial efforts on several fronts is required with the promotion of entrepreneurship, innovation, investment and human capital formation (education and skills), as well as modernising infrastructure (Gardiner et al, 2013).

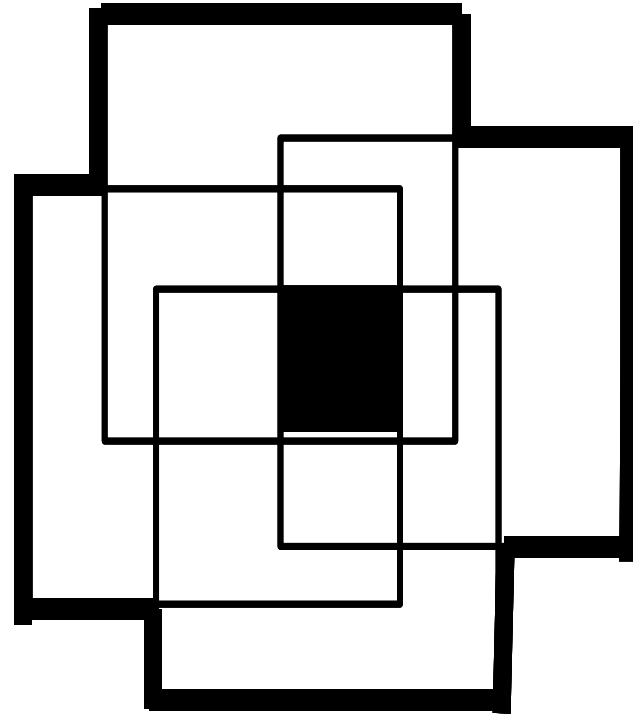
# Challenges in securing the local growth agenda; spanning the boundaries

- Physical transformation;
  - Places start with an inherited pattern of land use, a resource base and a set of institutions tailored to another era;
  - Old cities and rural areas alike both have regeneration needs against a backdrop of the increasing importance of new spatial configurations; city-region and a focus on the sub-region
  - The legacy of the past can weigh heavily; adjusting to new futures difficult (land and labour fixed effects are significant);
  - The challenge in many areas was to bring about economic, physical and social renewal against a backdrop where so much of their existing stock of floorspace, human and physical capital was committed to the production of goods that either no longer exist or which were made elsewhere.
- Integrating the relevant communities of business, knowledge, finance and the built environment; ***spanning the boundaries***;
- An innovation system that keeps growing new companies and lets them grow in the region
- Political skill to manage power struggles and negotiate through different units of government; leadership gaps;

Knowledge System

Finance System

Business System



Built Environment

# Meeting the needs – a checklist for success

- Physical place and infrastructure
- Providing premises and more
- Human resources
- Building the capacity of the knowledge base
- Creating the innovation network
- Financing the enterprise
- Entrepreneurship and business development
- Fostering business and industry networks
- Branding, marketing and promotion
- Institutional change: collaboration in the place
- Levers for change: planning, finance and incentives
- People and entrepreneurship

# A Local Growth Agenda

- Need economic renaissance of Northern Conurbations;
- New investment in land reclamation, transformational infrastructure and skills;
- Overcoming legacy of the past;
- We also have to recognize the fundamental importance of knowledge transfers between people, people and business, and business to business in successful places. These interactions are central to understanding how places can compete.
- Coordination of wide range of policies; bending the spend;
- Devolution has assisted local coordination in Scotland, Wales and Northern Ireland; North England particularly disadvantaged.

# New directions in funding and incentivising local growth

- At present time local growth initiatives are struggling to gain traction in some areas given the scale of new investment required in land reclamation, new transformational infrastructure and people;
- Better understanding of problems faced will help but a keener economic edge to policy is required;
- However, new ways have to be found to increase the volume of resources that can be levered into the local growth process;
- Speed-up the pace at which land reclamation and new transformational projects can take place. Pace too slow at present;
- Number of issues around land assembly, reclamation, infrastructure and planning;
- ***Bending the spend in the mainstream rather than at the margin-a TOTAL PLACE AGENDA.***

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