NEW ECONOMIC DEVELOPMENT MODELS FOR CITIES IN THE UK

Frances Northrop
Director, Programmes and Practice, New Economics Foundation

Rachel Laurence
Director, Programmes and Practice, New Economics Foundation

Adrian Bua
Researcher, New Economics Foundation

"Attract a business, and you attract more money.
Regenerate a high street, and you'll reap the benefits.
Grow your area, and you'll grow your revenue too."

With these words, then Chancellor George Osborne triumphantly unveiled plans for a "Northern Powerhouse" in Manchester in October 2015. It was the Treasury's response to the deepening divide between the economies of the south of England – dominated by the global city of London – and of the north. Seen in terms of devolution, these plans sought to rebalance the UK's economy by replicating the economic "success" of London in northern English cities through "City Deals" focusing on enterprise zones, housing and transport infrastructure, high profile visitor attractions and sectors of high growth such as advanced manufacturing. Government funding for these projects was meant to attract further inward investment from global capital.

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Earlier that month, in a community hall in the town of Salford, three miles north of the Manchester Central Convention Complex where Osborne was to make his speech, local people were working with the New Economics Foundation to develop their own local economic plan. This work, funded by the Department for Communities and Local Government, was part of a bigger programme across England to look at how community-led economic development might work in 70 places. It's objective was to identify the real issues people cared about in their local economy and enable them to take action to develop it in a way which met their needs.

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Regenerating their high street, which was dominated by boarded-up shopfronts and a handful of fast food takeaways, was top of the agenda. No one in the area has much disposable income; many of the shops have been closed for a long time; and the new luxury and student flats being completed in Salford, which might have brought regeneration to the area, will connect directly with Manchester city centre via a new shopping mall, meaning the new residents are unlikely to stay where they live for shops and other amenities.

Despite a degree of cynicism from those involved in past regeneration efforts, whether in the council, the local housing association, or local community development organisations, there was a clear, dogged hope that somewhere in this talk of a Northern Powerhouse a future could be carved out for the people of this Salford neighbourhood, where most people live in public housing. But as the group talked through the current development plans in the city it looked increasingly unlikely that any of these would "trickle down" to Salford. New jobs emerging in the city centre were felt to be out of reach of local people's skills, experience and public transport connections, and footfall of people who live elsewhere is restricted largely to those stopping at the car wash on the main road that slices through the estate and provides one of the main arteries out of Manchester.

Similar conversations have been taking place in localities throughout the UK since the 2015 spending review confirmed the direction of travel of recent plans for regional devolution, a deliberate policy to move power and investment from London to other city regions across England (Allen et al., 2015). This is by no means the first time a contemporary UK government has committed to a "rebalancing" of the UK economy. It was a strong theme in preceding New Labour and Conservative–Liberal Democrat governments. However, devolution deals have more radical ambitions than their precedents. Although the extent of devolution differs by deal, a more strategic economic role is on offer to local areas than in previous decentralisation initiatives, with greater influence over spending on skills and learning, housing, transport and health, and social care. There is also a commitment to devolve revenue-raising capacity by localising the retention of business rates, and freedom to vary council tax rates.

These developments are presented by the current government as the progenitor of a more local Britain that also promises to deliver significantly reduced inequalities in economic performance at regional level and as a shift away from the current model of economic development that is so reliant on growth in the south east.

The New Economics Foundation has long supported the principle of "subsidiarity". Rather than "local by default", this invites a critical consideration of the appropriate scale at which functions should be carried out, as well as the relationship between tiers of governance. And underlying any question about how the economy should be structured at a local and regional level is of course the broader question of what it is we want the economy to deliver at local and regional scales. The idea of decentralising power and moving towards more regionalised powers for economic planning and strategy appears to open up exciting and positive new possibilities to democratise and rebalance our economy, and to build more resilience, equality and subsidiarity into it. However, devolution – both in and of itself as a concept, and more specifically in the current form emerging with the city devolution deals – likewise presents significant risks. One obvious example is the substantial disadvantages faced by deprived areas in making the most of new powers to raise council tax and retain business rates. Cheap homes and considerable difficulties attracting new business mean they have little to gain from these measures, as our Salford group identified swiftly. When compounded by the fact that local government has been the biggest loser in the austerity-led public spending cuts, the Northern Powerhouse seems more of a recipe for exacerbating, rather than overcoming, regional and local inequalities. For this reason, critics of the policy have referred to the initiative as the "Northern Poorhouse".

I. A centralised economic model risks recreating the inequalities of the urban agglomeration of London in other cities

Devolution deals demand that regional government justify its greater access to powers and investment through embedding and reinforcing the prevailing central government-led approach to regional economic development. The outcomes against which regions' devolution proposals are judged are entirely set by central, not regional or local government, let alone citizens. Thus, the process of awarding devolved powers to areas reinforces the success of those regional economic development strategies that most conform to the current central government approach to growth.

Amidst the devolution debate it is crucial to make the case for an approach to political and economic decentralisation that allows and empowers local regions to devise development strategies that tackle inequalities in wealth and power, respect environmental limits, contribute to carbon reduction and generate opportunities for the development of diverse, balanced and resilient local economies. Of the ongoing approach to devolution we should ask whether it contributes to this agenda or whether it in fact risks doing the opposite. And what should devolution look like in order for it to be a force for a more inclusive, circular economy.

As things stand, the main stated aim of the devolution agenda is to rebalance the UK economy by boosting growth outside London. It is argued that greater local control will lead to more inward investment, coupled with increased investment in transport infrastructure – to be co-ordinated by the Transport for the North partnership. This will deliver stronger regional growth and close the regional output gap, making an increased contribution to the national purse. In the government's own terms, the deals are also supposed to secure "better use of local authority assets to unlock resources to be invested in growth"; "commitments to pro-growth reforms" and "greater influence over key levers affecting local growth and freedoms and flexibilities" (HM Government, 2013).

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and that "peripheral" economic areas that depend on national forms of wealth distribution can be eliminated by developing localised competitive advantages, building on economic specialisms, and generating agglomeration effects. Growth is thus by some distance the main outcome sought. Underlying this logic is, of course, the assumption that regional growth, once secured in this way, will lead to greater local prosperity.

In their efforts to gain powers through the devolution process, local authorities are driven to put forward economic priorities that align with central government's approach to growth through gross value added (GVA), which counts the value of goods and services produced in an area, industry or sector of an economy as the measure of the economy's success. If they resist this pressure, they risk being awarded fewer powers and less substantial resources. Hence, in the government's devolution drive, the focus on GVA growth has so far been definitive, and this ambition is reflected both in the stated aims of devolution as well as the processes through which devolution deals are being negotiated.

But there are a series of reasons to doubt the claim that devolution, as currently pursued, can achieve the aim of boosting regional growth and closing the output gap. Research in other devolved areas (Brill et al., 2015) has argued that, in a low-growth environment, and in a context where cuts to benefits can be expected to reduce consumer demand in peripheral areas that are more reliant on welfare, closing regional output disparities is highly unrealistic, if not outright unachievable. This would at the very least require an industrial policy which acknowledged local conditions, and a shift away from an economic model that continues to focus on London-centric finance, high tech and service industries.

In fact, London is often touted as an exemplar of what devolution and agglomeration effects can achieve – the argument is that similar results can be expected in other regions across the country. However, this is problematic, because the capital's economic success relative to other areas is arguably a result of national economic policy such as de-industrialisation and the deregulation of finance, rather than of devolution per se. Moreover, in becoming the "powerhouse" of the UK economy, London has benefitted disproportionately from infrastructure investments over the past decade. Despite all the rhetoric, this gap is set to widen with plans to spend £2,600 per capita on transport in London, compared to £380 in the north.

The London example is also more fundamentally problematic in that it suggests that a city economy such as London's is, without mitigation, successful and desirable in the first place. London had a GVA increase of 15.4% between 2007 and 2012, compared with 6.9% in the other 11 UK regions (ONS, 2014), and its current share of UK output now stands at 23.8% (GLA, 2017). But it also has the highest child poverty rates in the country (Butler, 2014), and a housing market that offers tantalising investment opportunities for national and international financial elites but is unaffordable to most of its own population (Van Lohuizen, 2015). Is this really the type of regional or city economy we think is going to deliver greater equality, reduced poverty, better jobs or business sector resilience in other places?

The problems faced by the London economy speak directly to the failure of "trickle down" economics. In economic development a rising tide does not necessarily lift all boats – some can, and do, sink. Increased inequalities within regions can be expected from an approach that seeks aggregate growth at all costs, and does precious little to protect those at the bottom.

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Moreover, devolution as currently pursued is also likely to lead to an accentuation of inequalities between regions. Mirroring the logic that prioritises the development of local competitive advantages, devolution deals are rolled out on a case by case basis, with the terms of each deal reflecting different patterns of need, ambition and competency. There is nothing wrong with this in itself, localisation needs to be sensitive to context. However, varying abilities to capitalise upon the opportunities opened up by devolution are compounded by the phasing out of national processes for wealth distribution, leading to a recipe for the entrenchment, rather than attenuation, of these regional differences. We can expect uneven development to be reinforced by the current approach to devolution.

This issue is particularly stark when one considers that the biggest losers in spending reviews since 2010 have been local state bodies. Increased powers to raise revenue locally are miles away from compensating for the cuts being made in central financing, and plans to devolve power over raising revenue are not matched by freedom over spending. For example, 2% council tax increases must be spent on adult social care, and spending on business rates is subject to veto and approval from business elites. It seems that devolution is delivering a policy straitjacket that turns public authorities into agents for the implementation of spending cuts, rather than institutions that are sufficiently empowered to develop and implement economic strategies of sufficient scale to close the gap between centre and periphery.

II. Towards a change in approach that establishes priorities for our economies beyond growth

We have long argued that economic growth should not be the primary goal sought by economic development, but rather understood as one of a number of potential means to an end in pursuit of a broader range of social and environmental outcomes. The Stiglitz, Sen and Fitoussi (2010) commission on economic performance and social progress recommended that measures of wellbeing and quality of life should take centre stage, and recent work by NEF has called for five headline success measures, covering: employment quality, wellbeing, environment, fairness and health (Jeffrey & Michaelson, 2015).

Strategies to decentralise power ought to facilitate a shift in the drivers for regional and local economic development. But this can only happen if devolved economic strategies are designed explicitly around the outcomes specifically needed by an area, as determined by those who live, work, or run businesses within that area's economy. Devolved units should be given the power and support to be able to craft context-sensitive economic and social development strategies that can meet the needs of their citizens and improve their lives.

Crucially, this may or may not involve growth. It is certainly likely to involve different types and speeds of growth in different regions, and in different sectors within those different regions, and may equally involve very different accompanying priorities for investment in infrastructure, skills, training or business support in different regions accordingly.

This might be done by basing economic development priorities firmly on existing local and regional assets, rather than focussing on attracting new high-growth sectors to an area

A focus on attracting economically active and highly skilled new residents into a declining area is all too often at the core of the regional and local economic plans, with no sense of how to avoid the creation either of a parallel economy which excludes and displaces existing residents (the "gentrification" effect) or of "dormitory" towns or suburbs in which those earning higher wages do not in fact participate in any local economy at all.

The community-led economic development project in Salford is struggling with the fall-out from precisely this, in the sense that the area sits between a part of town being rebuilt as a "dormitory" suburb, from which residents are expected to connect with the city centre for jobs and shopping, entirely bypassing the estate in between. The group is puzzling out how to attract some of those wealthier new residents into their patch to shop and stimulate a revival of their high street and, as we've seen already, are contending not only with the lack of existing footfall to or through the area, but with the plans for a large-scale shopping mall close by, as well as the vibrant inner city offer of Manchester round the corner.

But city and regional economic plans do not have to go this way, which is to say, at best simply ignoring or displacing economically disadvantaged people and areas as we focus simply on attracting new kinds of people and businesses in, and at worst locking them even more definitively out of economic development opportunities available. Instead, we could be using the devolution process to embed measures and processes to proactively balance our local and regional economies: to connect new high growth economic sectors and wealthier demographic groups much more effectively with low growth sectors and low-wage, low-skilled demographic groups within and around some of the core cities currently rolling out devolution deals.

In response to this, channelling public and private sector procurement more effectively through small and medium-scale local enterprise is becoming more popular in certain parts of England. Many local areas are already trying to do this, with Preston[1] and Sandwell[2] being just two examples. This might be done by basing economic development priorities firmly on existing local and regional assets, rather than focussing on attracting new high-growth sectors to an area. Again, a strong argument is being made in many areas to do just this, with just one example being Sheffield.[3] And inasmuch as it is useful to attract new sectors into an area, this might be done within a wider objective of maximising local assets and opportunities to decarbonise – for example as areas around Hull are doing currently with the emerging off-shore wind sector. There are, in fact, a great number of tried and tested approaches to a much more sustainable, better distributed approach to local growth, even within the relatively mainstream world of regeneration and regional development.

1. http://newstartmag.co.uk/features/preston-building-new-local-economics/
2. https://birmingham.newstartmag.co.uk/good-city-economies/anchoring-a-community/
3. http://newstartmag.co.uk/features/portland-works-community-shares-in-action/

Many of these new approaches are being led and promoted by people in their local areas through vehicles such as community land trusts (CLTs) for the provision of housing, leisure and workspace; community and publicly owned renewable energy through co-operatives; and the delivery of not-for-profit health and social care through community enterprises. London Community Land Trust provides an example of this. It is working on five developments, one of which, St. Clements, is being built in partnership with a mainstream developer. The site for this development is an ex-psychiatric hospital on land belonging to the Greater London Authority (GLA), allowing a partnership between them, the developer and Peabody Housing Association. The project will provide 252 new homes, 35% of which will be genuinely affordable homes including 58 for "social rent" and 23 community land trust homes. This work has led to the establishment of a community-led housing advice hub in London which is working to support the proliferation of trusts to meet the desperate need in the capital for housing that people can afford, both to rent and buy.

These approaches signal a new relationship between state and citizens and are locally rooted, ensuring that the economic benefits are felt

Repowering London (RL) is another example of community-led infrastructure support, this one around community-led and owned renewable energy. Born out of the successful Brixton Energy project which has installed 134 kW of solar panels on the roofs of ten public housing blocks in Brixton, RL is now working in 11 areas of London to roll out this approach by using co-operative structures to raise money for the schemes through community shares.

These approaches signal a new relationship between state and citizens and are locally rooted, ensuring that the economic benefits are felt in the places where they manifest and respond to local needs, rather than a one-size-fits-all model of regeneration and service provision.

A devolution process which took a well-rounded view of subsidiarity and could be equipped to stimulate, facilitate and build on this kind of innovation in new, social and environmentally driven and, crucially, community-led economic development, could really facilitate the kind of dynamic, decentralised, democratised economy necessary for sustainable and equitable social, environmental and wellbeing outcomes.

III. What we need now

Our interest in engaging with the current devolution process is twofold: how can we build on the exciting opportunity it seems to offer to test, trial and consolidate much more progressive and equitable regional approaches to economic development policy? And how can we best avoid this process doing the opposite – exacerbating regional inequalities, or embedding the kinds of priorities within regional economic strategic that make it even more difficult to pursue social, environmental and wellbeing outcomes? Amongst other things, the "devolution debate" is arguably one of the principal current political lenses in the UK through which we are examining questions of how the economy functions for people and planet. For those interested in pursuing progressive, systemic alternatives to our current economic paradigm, it will be crucial to find answers to these two questions as the devolution agenda unfolds.

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