

Regional Development and High-Speed Rail

November 2006

Contents	Page
FOREWORD	1
EXECUTIVE SUMMARY	2
1. INTRODUCTION	4
This Report	5
2. THE ECONOMIC IMPERATIVE	6
3. DEMOGRAPHY AND EMPLOYMENT: TRENDS, CAUSES AND EXPECTATIONS	8
Trends and Forecasts	10
Growth Prospects across the Nation	11
Causes and Effects	13
London and it's Region	16
Migration	17
4. POLICY: TARGETS AND INTERVENTIONS	19
Regional Economic Targets	19
Northern / Midlands Way Strategies	20
London and the South East	20
Interventions	22

FIGURES

Figure 3.1	Structural Change in the UK Economy 1971 - 2013	9
Figure 3.2	Employment Change 1971 – 2013	10
Figure 3.3	Gross Value Added 1990 - 2014	10
Figure 3.4	Population Change 1992 - 2002	11
Figure 3.5	Employment in Private Sector Services and Per Capita GVA	12
Figure 3.6	Percentage Employed in Financial and Business Services (2004)	13
Figure 3.7	Share of Employment in Public Services	14
Figure 3.8	Real Unemployment	15
Figure 3.9	17	
Figure 3.10	Population Change (% per year) 1981 - 86 to 1997 - 2003	18

TABLES

Table 3.1	Job Creation 1971 – 2004	15
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FOREWORD

This report has been released in response to a number of requests for the background evidence on the underlying trends in the British economy. It has been put together for Greengauge 21 by experts in the field, and it draws heavily on previously published material.

The underlying message is this: the British economy is changing and changing fast. It is growing strongly but unevenly. Today's population and employment levels would, over time, as incomes grow, alone create significant new pressures on our national infrastructure. But there is also a pattern of structural change, of internal and international migration and of substantial growth. These need to be understood properly if a coherent and affordable response is to be developed, one that can take into account the hugely important questions on the environment and of social policy, and create the economic resources to address them.

Particular thanks are due to Nick Banks, Graham Gudgin and Ruth Salmon.

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October 2006, London.

EXECUTIVE SUMMARY

This paper addresses an issue that is of vital importance which will recur for many decades to come – how to serve the transport needs of our great and dynamic cities so that they can function economically and efficiently in a society where businesses are demanding new and more skills and there is a demand for choice and a high quality of life over an ever-widening geographic area.

Our argument is as follows:

- A new industrial revolution has placed financial, business and other private service sectors at the core of economic progress for affluent countries in the 21st century.
- Britain has been well placed to take advantage of this revolution because it has London, Europe's major world city, with unparalleled traditions in financial and business services and excellent global transport connections.
- London can sustain its role as a leader in a global industry that shows no signs of slowing its rate of growth; this implies that more and more people will become employed in this sector – but there are limits on how many can work physically close together in the south east. Other cities must become relatively more significant players over the next 25 years
- London's economic region has spread to include virtually the whole of the south east, much of the eastern region and parts of the south west as well as the nearest sections of the east and west midlands. However it has reached a limit of connectivity by road and existing rail systems, congestion is a huge problem, housing is in short supply and house prices are making the wider region overly expensive.
- The services revolution has revived the importance of cities as economic powerhouses. The long decline of the large industrial city has come to an end now that most manufacturing has been decentralised out of the larger urban centres within Britain and/or out-sourced overseas.
- Cities support network effects through concentrations of companies and people in growth sectors, and greater concentration has sustained further growth; but the effect has been uneven, with some cities acting as leaders. Trickle down to other cities has been slow, partly because of poor transport links. The leaders need to continue to expand and the laggards need to up the pace of their development. All need better inter-linking to the hub in London.
- Major cities in the north, midlands, Scotland and Wales are beginning to grow again after more than half a century of decline. The economic revival of the most successful has been driven by their success in developing financial, business and other knowledge-based services, and intermittently helped by the high cost of office space in London.
- The northern cities have been held back by their inadequate quality housing stocks, an inheritance of under-skilled workforce and lack of world class transport links. The most successful of the reviving cities, Manchester, is the city with the best global connectivity. Edinburgh, second in importance in Britain as a financial centre, suffered to a lesser extent from these characteristic problems and, being remote from London, has excellent air links via Heathrow and Amsterdam.

-
- Britain's economic performance will be held back in the 21st century unless the constraints on London can be loosened and unless more cities can be brought into the forefront of international global success in private sector services.
 - We believe that high-speed rail links will play a major role in repositioning the UK for 21st century success. High speed rail will:
 - Enlarge London's catchment area for labour
 - Enhance the global connectivity of several of the UK's largest conurbations including Birmingham, Manchester, Leeds and Glasgow, through direct links to Heathrow and London
 - Link the major concentrations of financial and business service activity in England into a major economic zone stretching well beyond the south east
 - Create significant non-London economic zones including Glasgow/Edinburgh and Leeds/Manchester, all of which are leading cities in service sector growth but need better inter-linking to maximise networking benefits
 - Facilitate the face-to-face communications that will remain the lifeblood of success in financial and business services and the wider knowledge-based economy in the digital age.

This report elucidates this argument and provides the evidence that supports it.

1. INTRODUCTION

Each mode of transport has different characteristics, and each serves a different segment of the travel market. Beyond the range of walking and cycling, private car dominates. But with over a decade of policy *not* to expand the capacity of the road network to keep pace with demand growth, development opportunities are starting to be sacrificed. Neither the strategic road network managed by the Highways Agency nor local authority road networks can accommodate the system shock of significant new developments.

As road delays have worsened, conventional rail has retained and even won market share on journeys between cities such as Leeds and Birmingham as well as from major cities to the capital, but journey times are such that our principal cities remain distinct travel to work areas, denied the full networking benefits that integrated city-region economies would bring.

High speed rail combines two particular attributes – high capacity and speed. As the economy becomes one increasingly trading on its strengths in knowledge, regional policy will increasingly demand the benefits that high-speed rail can bring.

There has been a recent trend towards a concentration of economic growth in the larger city centres, which provide a range of services to a regional and national marketplace. The leading cities also address an international customer catchment directly. These centres are simultaneously becoming more dense and are demanding a larger workforce recruited over a wider geographic area.

Service sector economies are highly fluid. Their workforces are well educated and demand high residential amenity, often at a distance from city centres. New domestic arrangements, often involving dual income households, increase further the need for good transport links. The pattern has shifted from regular 5-day weekly commuting, with more flexibility and variation in timings and in destinations, but the scale of travel hasn't diminished. Modern IT systems can obviate the need to travel, but mobile technology also removes a disincentive to travel.

For employers, not only must it be possible to find and recruit more people, but, to get and retain the right people, labour catchments must continuously expand, even while reliance on a routinised 5-day/week attendance diminishes. Company functions in different cities also need to be able to network ever more efficiently and effectively, and while electronic communication has a role to play, face-to-face contacts continue to increase in most sectors.

The challenge is how to support the economic development that we can see lies ahead. We need to know whether we risk prejudicing growth through the inadequacies of the transport system, and if so, what adaptations are needed. The price of failure would be immense.

We have come as far as we can with our road network (modernised over the last half of the 20th century through the national motorway programme) and an essentially 19th Century rail network. Both are going to require active demand management measures to try to restore efficiency levels.

On the aviation side, we have already lost the advantage that the nation's leading international airport conferred (Heathrow no longer offers the most number of international destinations amongst the European competitors). Instead its runways have to accommodate domestic flights to support hub airline operations. In a global economy that has so firmly embraced an open market in labour and capital, international connectivity is a key attribute, itself a determinant of location decisions for highly mobile international businesses. Short-haul flights at our major international airport(s) can be replaced by high-speed rail, as is increasingly the approach adopted by our competitors in mainland north west Europe.

What is needed is the progressive development of a network of high speed lines to connect the centres of the largest cities to each other, to the airports and to labour and customer catchments.

This Report

Our intention here is to explain how the world is changing – the fundamental economic, population and commuting trends that are shaping Britain's future in response to global technology and innovation. We set out to show how the national transport system, and in particular, high-speed rail can contribute to meeting the economic challenges and opportunities that lie ahead. In particular, the report:

- charts the fundamental changes to Britain's regional economic geography caused by new technology and global production and markets;
- summarises current regional policy;
- identifies what needs to be done so that our national transport system plays its part in meeting the objectives of a 'long term economic reform plan'.

2. THE ECONOMIC IMPERATIVE

There are limits to what policy makers can do to alter the long term ebb and flow of economic geography.

In areas of growth, government can make the most of the opportunity by ensuring that the private and public sectors play their roles in providing infrastructure – development land for residential and workplace developments, water, health, education, training and transport, all of which needs to be in place to serve the additional demand. To sustain long term growth of business activity, not only must businesses be enabled to inter-link and to specialise their functions in different areas, but crucially there must be factor mobility towards growth areas, otherwise the growth process will run out of resources.

In areas of decline, it has programmes in place on education and training, and it can oil the wheels of change by providing environmental investment and social programmes where the industries of the past have left degraded land and communities needing support. Much of government activity in this field is, however, by its very nature on the revenue account, rather than investment in building the future.

Our argument is that there is another solution – to improve the transport infrastructure so that a wider area can enjoy the benefits of centres of growth prosperity – the south east above all, but also dynamic regional centres, so that the UK can capture a progressively greater share of the growing world market for advanced international services.

...the unprecedented speed of global economic change presents a major challenge. Individuals and economies that can cope well with change should adjust quickly and thrive on the new opportunities. Those that cannot will find themselves at a disadvantage and may need help to adjust. So the challenges of globalisation affect us all:

- workers, who may need to adapt and obtain new skills;
- industries, that may have to change or relocate to remain competitive;
- governments, that must help firms and individuals to adjust, providing them with the social and physical infrastructure needed to realise their potential; and
- regional and global organisations that must work to provide an international system that safeguards stability and provides growth opportunities for all.

This suggests that the challenges of globalisation must be addressed at many levels, domestic, regional and global.

Responding to Global Economic Challenges: UK and China; HM Treasury October 2005

When the Chancellor of the Exchequer addressed the TUC Conference in summer 2005,¹ he told his audience that “at no point since the industrial revolution has the restructuring of global economic activity been so dramatic”. For him, “nothing in the

¹ Chancellor of Exchequer, Gordon Brown, Speech at TUC Conference, September 13, 2005.

next years is more important than equipping our nation for meeting and mastering these global challenges". What the Chancellor wanted was for "British working people... instead of being the victims of globalisation, [to] be its beneficiaries". And he wanted "us now to work together on a long term economic reform plan for global success".

Much of the response to the challenge and invitation set by the Chancellor might be expected to lie in the fields of skills development, increasing entrepreneurial activity, and in regeneration policies. But a 'long term economic reform plan' must also address questions of business efficiency, of structural change in the nature of employment and in access to the global economy.

Transport systems are critical to these questions. As the Confederation of British Industry sees it², transport is an essential driver of economic growth and it needs to be given a higher priority by government.

² "Transport Policy and the needs of the UK economy" CBI March 2005.

3. DEMOGRAPHY AND EMPLOYMENT: TRENDS, CAUSES AND EXPECTATIONS

The story begins with the developments in economic geography and their impact on regions and cities. It summarises the growing divergence between north and south, while recognising the variations in the prosperity landscape across the country within this general pattern, with the larger northern cities being areas of success and the coastal regions often lagging their inland neighbours.

Because regional economies are much too small to be self-sufficient, the key drivers of growth are activities which generate 'exports' of goods and services from a region both to other regions and further afield. These 'export' industries were traditionally dominated by manufacturing, which tended to be based on local resources and had to be close to ports to minimise export transport costs. Now exports are in effect 'weightless' in the growth sectors of financial and business services and tourism; the key location driver is no longer a port, but access to trainable and skilled labour and to businesses engaged in similar activities.

These services are most concentrated in central London and in major regional cities, but are also heavily represented in the counties around London, and dispersed more widely elsewhere in the form of back offices, call centres or local clusters of specialist professional expertise. Successful concentrations have grown as success has led to a virtuous upward spiral – more jobs means more choice for both companies and employees, more activity expands air services which expands access to markets and other companies, and so on.

London has been a major factor in the UK's economic success over the last 15 years, but its future expansion is threatened by access to labour, housing shortages, the high cost of housing and by congestion. London's catchment area has widened hugely to include surrounding regions to within 60-70 miles, but a limit has been reached on what is accessible through travel by car and traditional rail systems.

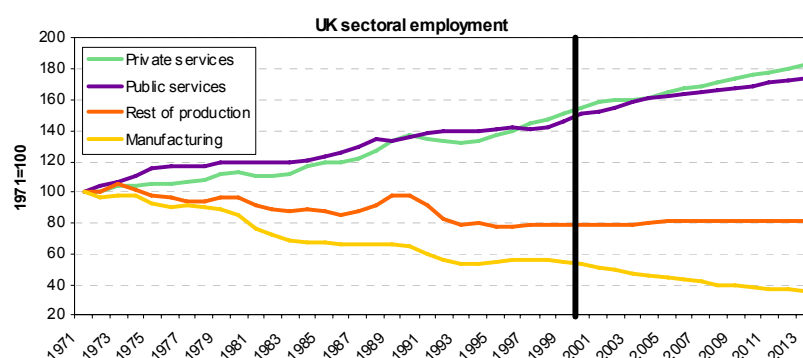
New faster rail links will be needed to widen London's catchment further, but equally important is the need to bring the other major UK cities into the global, export, service-based economies which will dominate economic success in the 21st century. Several of these cities, or, more accurately, city regions, notably Manchester, Leeds and Glasgow, have begun impressive economic revivals in the last decade, but others are growing less strongly and some remain trapped in industrial decline. The revival of northern cities has been helped by large public sector expansion, but it is the signs of genuine private sector revival that distinguish the most successful city regions. Something similar has happened in the industrial cities of the US, but the US experience appears to show that revival can be fragile and must be supported.

A wider range of economic activity now drives city region economies. The public sector is important. Population movements can also drive regional growth where incomes are derived from outside the region in the form of pensions, property income, borrowing, benefits or commuters earnings, or by spending outside the region as tourists. However these factors all depend on the success of the national economy, and this will only be maximised if the cities play a full role. It is now clear

that this role has to be based mainly on financial, business and other service sector exports to national and international markets³.

What we are experiencing is a large-scale structural change in the economy (see Figure 3.1).

FIGURE 3.1 STRUCTURAL CHANGE IN THE UK ECONOMY 1971 - 2013



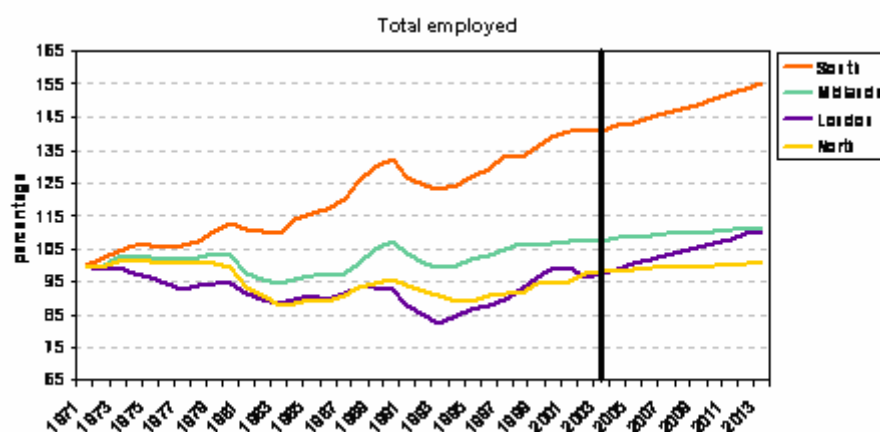
Source: Regional Forecasts Ltd.

This long term structural change in the economy has greatly benefited the UK as it is one of the few countries that possess a genuine world city with a significant proportion of its economy in international services sectors. The effects have been good for overall growth and prosperity, but the growth has been anything but even. It has put pressure on infrastructure and environment in the south, and has left the midlands and many northern regions with economies that are relatively weaker, despite government policies to redress regional imbalances. In Scotland, Edinburgh, already a well established financial centre, has been a growth pole, and, perhaps surprisingly, Glasgow's service sector has also grown strongly.

The pattern of growth across England and Wales is illustrated in Figure 3.2. There has been a broad spread of employment growth, almost without exception across the south, and also for the last ten years in London too; the position in the north and the midlands is much patchier.

³ "Regional Futures: England's Regions in 2030". Ove Arup, Regional Economics and Oxford Economic Forecasting. English Regions Network/RDA Planning Leads Group/ODPM & DfT, London, January 2005

FIGURE 3.2 EMPLOYMENT CHANGE 1971 – 2013

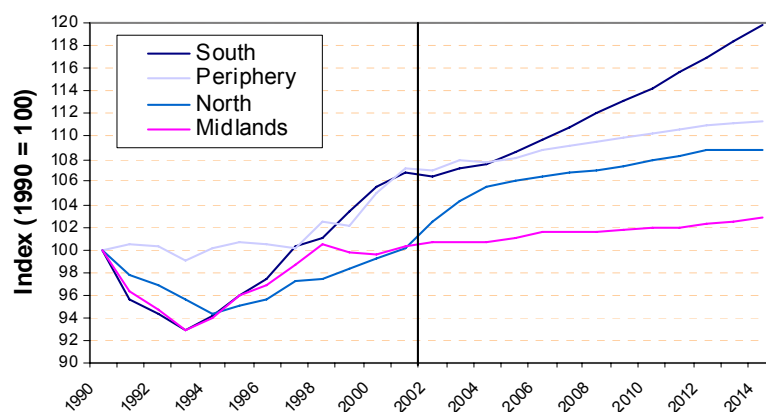


Source: Regional Forecasts Ltd

Trends and Forecasts

The British economy has been growing at between 2.5% and 3% per annum, measured in terms of 'gross value added' (GVA) per capita⁴ and is expected to continue to do so. Such a rate of growth means that on average, citizens will be twice as wealthy within 25 years. Figure 3.3 shows how the overall national growth has been distributed regionally. The pattern is similar for gross value added as for employment. However, the midlands fares worst for GVA despite doing rather better than the north on population and employment trends.

FIGURE 3.3 GROSS VALUE ADDED 1990 - 2014

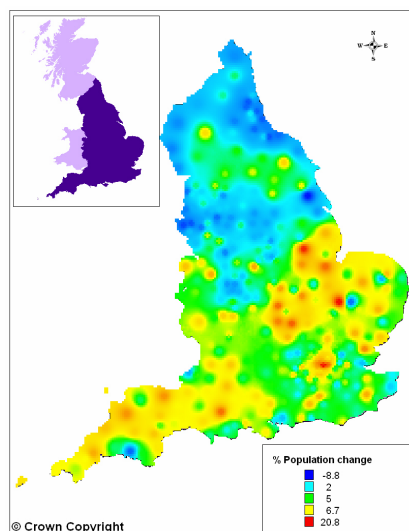


Source: Regional Forecasts Ltd

⁴ GVA is the sum of wage/salary plus (corporate) profit.

The trend over 10 years in population growth (and decline) across England is shown in Figure 3.4⁵, and reveals this: the north, in general static or declining (with some isolated exceptions), in contrast to England south and east of the Humber–Severn axis, which is growing consistently (again, with just some isolated exceptions). It is also worth noting the effect of the Green Belt and other environmental policies on population growth in the south east regions.

FIGURE 3.4 **POPULATION CHANGE 1992 - 2002**



Source: Regional Forecasts Ltd

This differentiated north-south trend is of course familiar. What may not be, however, is that the outlook is for more of the same.

Growth Prospects across the Nation

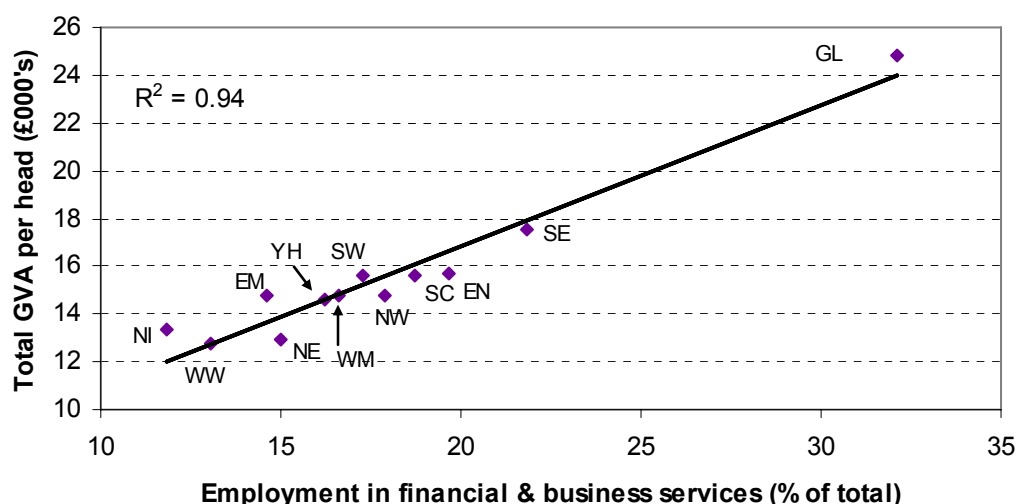
Discussion of the geographic distribution of growth can be discomforting. Nobody likes to describe a city or region as being in decline, and this risks undermining the efforts of those seeking to arrest the trend and encourage inward investment and regeneration. But the harsh reality is this: until recently most of our major cities and conurbations were declining at least in relative terms over a long period of time (as was the case in many parts of London) even if the wider city regions were in fact stable over the same period. The reason is a simple one. Private sector activities in our major cities across the provinces were dominated by sectors founded on the industrial strength of the early 20th century coupled to indifferent performance in more promising higher technology sectors. As our economy re-shapes itself, and as other countries have become able to produce what was once made in Britain more cost-effectively, then, the very same pressures that gave rise to these great cities and associated industrial areas go into reverse.

⁵ Taken from *Regional Futures op cit*

The economics are straightforward – in sectors where we have no advantage, employment will be lost, and in others, where we trade in two directions, relative earnings will decline. Only in sectors where we sustain outright leadership over other economies can high earnings and growth be sustained.

Underpinning export success are a wide range of factors aiding regional competitiveness, including skills, enterprise, investment, and innovation. The higher productivity in the south (taken as being the south east and east of England regions) reflects a higher proportion of private sector employment, and in comparison with the public sector, this is where the higher skills and income levels lie. The correlation between GVA/capita and activity in financial and business services is shown in Figure 3.5. There is no similar correlation for other exportable activities, including manufacturing.

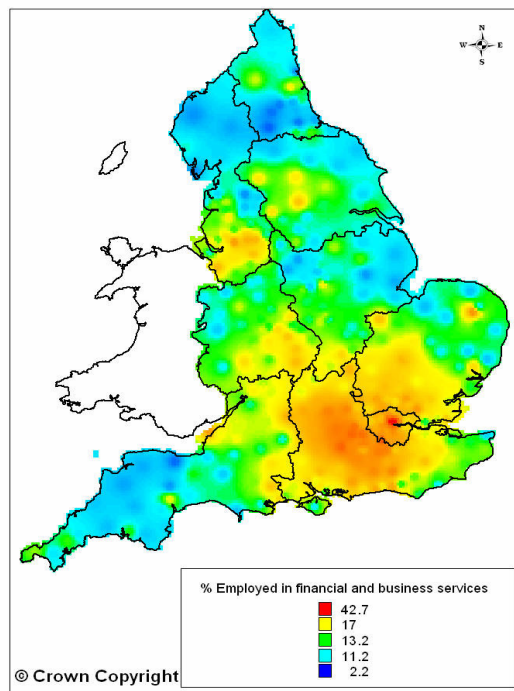
FIGURE 3.5 EMPLOYMENT IN PRIVATE SECTOR SERVICES AND PER CAPITA GVA



Source: Regional Forecasts Ltd

Critical to this analysis, then, is the continuing shift in the balance of employment, with financial and business services being the key growth sector. Note in Figure 3.6, below, the focus on the south, embracing London and a much wider area, and arguably geographically centred as much on Heathrow as on London.

FIGURE 3.6 PERCENTAGE EMPLOYED IN FINANCIAL AND BUSINESS SERVICES (2004)



Source: Regional Forecasts Ltd

Causes and Effects

The long term decline in manufacturing employment is a result both of rapid growth in industrial productivity (manufacturing now needs fewer workers), competition from lower cost locations overseas and the UK's relatively poor systems for developing skilled labour and industrial innovations. Luckily the UK excels at services and is the largest exporter of services in the world after the USA. The UK can continue to be a significant player in manufacturing, but mainly in high-tech niches and in the support to production through such activities as R & D, market research, design, and production planning. These, together with finance, insurance, consultancy, advertising, marketing, corporate law and software will become increasingly important as exports.

Globalisation of markets and revolutions in transport, IT and communications have encouraged economies of scale, and have enabled the numerous elements of the production and distribution process to be concentrated in low cost locations. The activities in which the UK will continue to have a comparative advantage will be those dependent on knowledge which can be less easily transferred to the third world. Locations close to the leading research-based universities will be a key factor, just as it is for the leading universities in the USA.

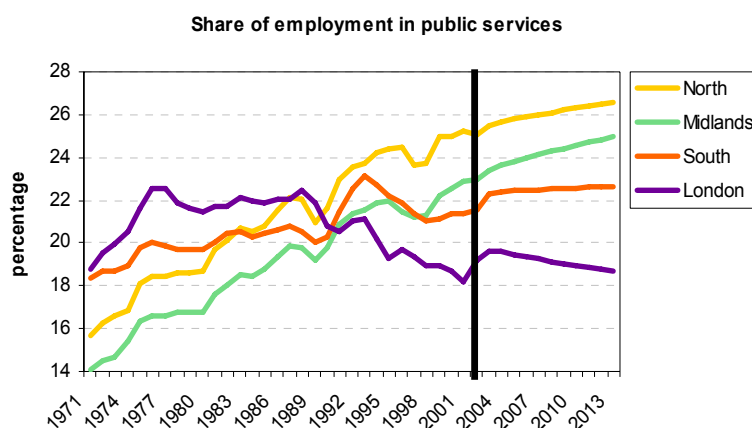
The location factors for business services now favour major cities. Some business services, such as high street banking, estate agency or landscape maintenance are local services which are sited in relation to their mainly local markets. Others, such as call centres are located in relation to the availability of trainable staff with an aptitude

for customer care, and are dispersed widely. However, the location of higher order 'export' business services is dependent on the availability of labour with the relevant expertise and qualifications within an increasingly extensive commuter area. They are heavily concentrated in and around London, resulting in a major shift southwards of the base economy. They are dependent on a very wide labour catchment which is in commuting distance of central London.

Part of the public sector response to the long term relative decline of midlands and northern regions has been to invest in public services, particularly health and education. This has resulted in an overall increase in public service employment – up by around 50% since 1971 (see Fig 3.1 above), and has been most evident in the midlands and the north. Figure 3.7 shows the regional change over time.

In the 1970s and 1980s public services were disproportionately represented in London and the south. However, during the 1990s this imbalance was redressed, and since then midlands and northern economies have become progressively more public sector oriented. For example, between 1998 and 2002, there was a net increase of 35,000 public sector jobs in Greater Manchester, and 28,000 in Greater Merseyside, at a time of no great population change.

FIGURE 3.7 SHARE OF EMPLOYMENT IN PUBLIC SERVICES



Source: Regional Forecasts Ltd

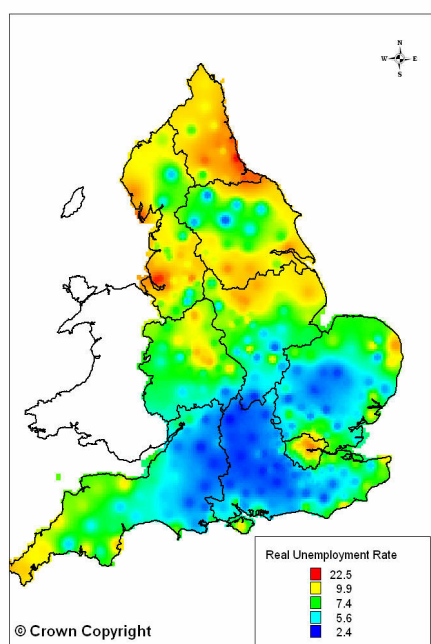
The overall effect on jobs over the last three decades is shown in Figure 3.8. Despite intense efforts, in the three northern regions only a net 10,000 jobs have been added in 35 years; whereas in the south (including London) a net 2.7m jobs have been created, mostly in the private sector. Of course, this has been a period of huge change, with the loss of employment in many key industrial sectors, and in many ways, the maintenance of employment activity in the north can be seen as an achievement.

TABLE 3.1 JOB CREATION 1971 – 2004

	Average Annual Net Job Creation 1971-2004	Total Net Job Creation 1971-2004
North	306	10,100
Midlands	18,748	618,700
South	85,194	2,811,400
London	-2,364	-78,000

Source: Regional Futures

This differential propensity of the north and south to create jobs has had predictable effects on the labour market. The growing knowledge-based sectors have attracted young migrants from elsewhere in the UK and from abroad, and are nevertheless leaving little labour resource to spare in the burgeoning south. On the other hand, despite Government interventions to create jobs in the regions, *real* unemployment (i.e. including for instance those of a working age who are long-term sick, i.e. not just claimants of unemployment benefit) rates are still disturbingly high across significant parts of the north (see Figure 3.9).

FIGURE 3.8 REAL UNEMPLOYMENT

Source: Regional Forecasts Ltd

London and it's Region

The driving force behind the continuing economic strength of the south is predominantly London, which has one of the most advanced economies in the world and, the surrounding counties have several of the fastest growing sub-regions in Europe.

Though 'world cities' – of which London is a pre-eminent example – vary greatly in size, shape, economy and influence, to a greater or lesser extent they share a number of common geographic characteristics⁶:

- a dense concentration of higher order national and international services in the city centre comprising mainly:
 - financial services
 - 'power and influence' activities including government, national and international agencies and NGOs, trade associations, embassies, lobbyists etc.
 - creative and cultural industries
 - tourism
- a large supporting business services sector located both in the centre and in the regional hinterland
- a wide commuter catchment to provide the labour force for the businesses in the centre
- concentrations of poverty and deprivation in inner city areas, a common feature of most large cities
- a halo of high technology manufacturing and R&D in the region;
- a multi-cultural population continually rejuvenated by an inflow of young international migrants.

All these characteristics can be seen in and around London. Over the last fifty years it has gradually extended its economic influence until the 'mega-city region' now covers almost all of the south east and eastern regions and the London effect can also be seen in the near south west and south midlands.

However, it is also an economy which is heavily constrained by capacity, particularly housing and transport. On the one hand, London frequently comes top in business surveys of most favoured locations, and in a 2004 European Commission survey of 31 cities in old Member States (EU15) it was the third easiest city to find a job and eighth best at integrating foreigners⁷. However, it also ranked eighth most difficult to find good housing at a reasonable price and seventh worst in terms of satisfaction with public transport (see Figure 3.10). Capacity pressures have not only resulted in high house prices and congested transport networks. They have also led to a loss to the British

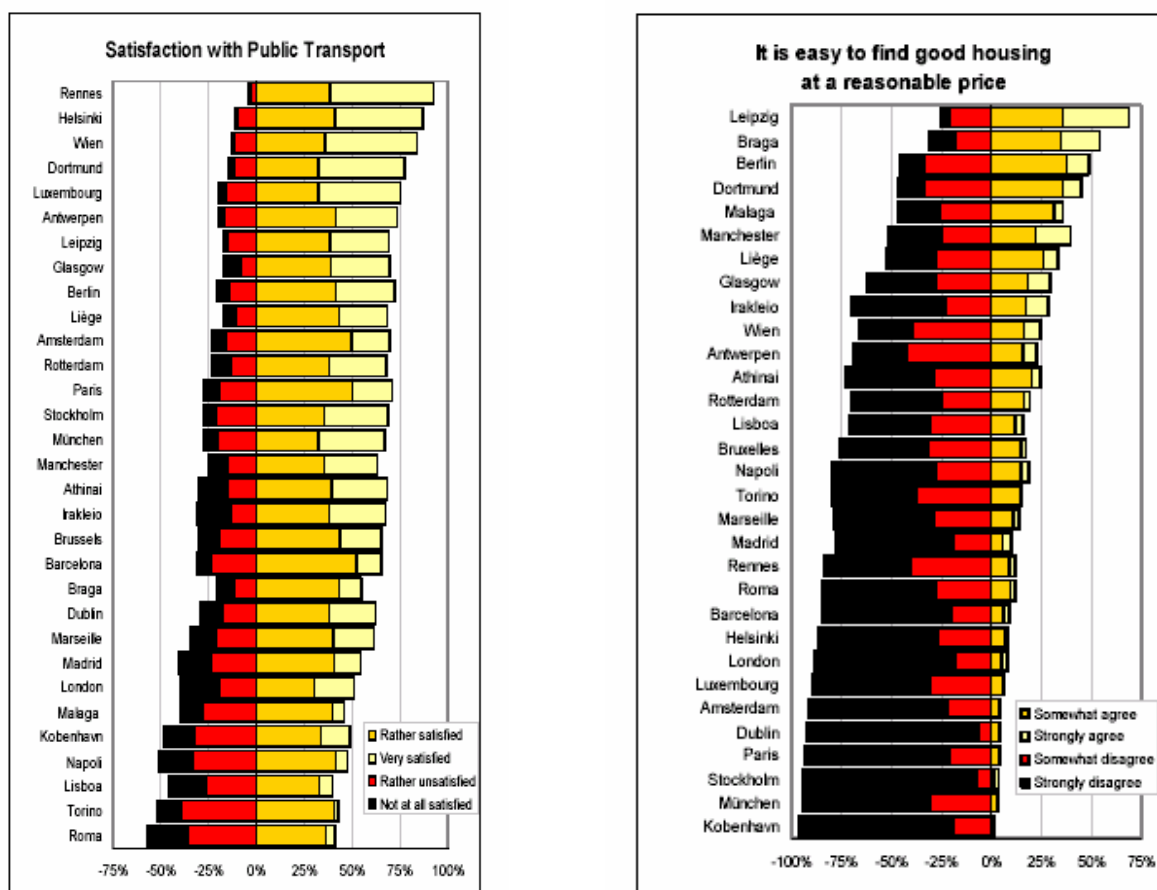
⁶ See "Four World Cities"; Llewelyn-Davies et al. 1996

⁷ Urban Audit Perception Survey: Flash Eurobarometer 156: European Commission 2005

economy through off-shoring of a wide range of activities in the south east that include IT and R&D.

FIGURE 3.9

Satisfaction with Housing and Public Transport⁸



Migration

Age profiles across the nation reflect a long-established trend of shift in population and employment within the country, especially from north to south⁹, and from established cities to the wider catchment beyond. Younger people for generations have come to London and to a lesser extent, to other major cities, but many then choose to settle and bring up families in the wider city regions, which in London's case means across a very wide region indeed. This pattern is overlaid by an urban focus to patterns of net inward migration. There are younger than national average populations across much of the

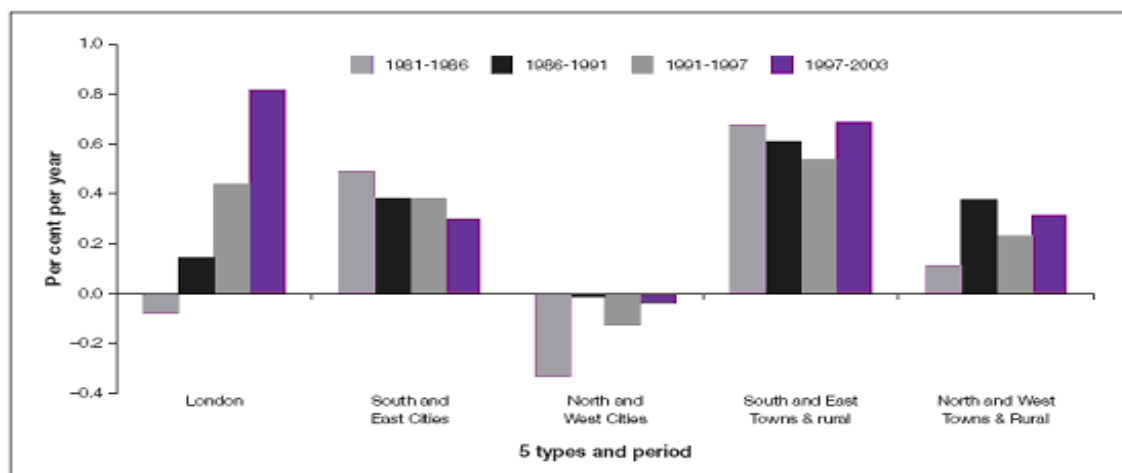
⁸ Ref: Ibid.

⁹ A trend that has apparently been reversed over the last 2-3 years

south east (except to the south of London and near coastal areas), along the M62 corridor between Manchester and Leeds, in Cardiff and its catchment and across the central belt in Scotland. Younger age profiles are associated with higher levels of household formation, and with economic growth.

There are also marked migration trends within regions. Figure 3.11 shows population change since 1981 for London and other cities (defined as settlements of over 275,000 people), compared with towns and rural areas. In the north and west, the city populations have been declining (albeit at a reducing rate) whereas in towns and rural areas population has been growing. Even in the south, where all categories of settlement have continued to grow, the increase outside London has been greatest in the smaller settlements.

FIGURE 3.10 POPULATION CHANGE (% PER YEAR) 1981 - 86 TO 1997 - 2003



Source State of the English Cities ODPM 2006

However, most recently an additional factor has emerged – city centre renaissance in core cities. More jobs are located in central areas, and generally also more homes as city centre living has become fashionable.

These intra-regional changes have had consequences for travel patterns. In particular, the concentration of jobs in city centres and suburban business parks and the continuing urban to rural shift in some segments of the population (30-40 yr olds who are middle to upper managers and whose participation is critical for economic success) has led to commuting over increasing distances.

4. POLICY: TARGETS AND INTERVENTIONS

These, then, are the underlying economic and demographic trends that are shaping the Britain of the future. They present a world of opportunity for the young, mobile, highly educated, cosmopolitan populations of all regions who can seek success, predominantly in the south in an exceptionally wide range of human activities on a national and international scale. However, to policy makers, they present a picture of a divided Britain that is increasingly dependent on public service employment in the north and is faced with continuing pressure for development in the south.

Regional Economic Targets

There are essentially three strands to current regional policy to address these issues. In the first place there is the Government PSA2 target on economic performance (see panel summary¹⁰). The target is medium term to 2012, and comprises an aspiration to reduce regional disparities within the context of (but not at the expense of) overall economic growth.

THE PSA2 TARGET ON REGIONAL ECONOMIC PERFORMANCE

The main objective of Government economic policy is *“to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.”* (HM Treasury). This implies maximising economic performance of all regions.

Government policy, as expressed in the ODPM, DTI, HM Treasury PSA2 target is to:

“Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gaps in growth rates between the regions, demonstrating progress in 2006” (ODPM, HM Treasury, DTI letter to Regional Economic Performance stakeholders, 27 July 2004)

“The Government wants all regions to fulfill their potential. Constraining growth in the south east may simply see investment transferring abroad or not happening at all. Improving the ‘pull factor’ of the less prosperous regions, building on their indigenous strengths and making them more attractive places to live, work and invest, will be a fundamental part of the work undertaken to deliver this PSA.” (Government response to the ODPM Select Committee on reducing regional disparities in prosperity: ODPM September 2003)

There are some important observations in relation to the PSA2 target:

- First, the target aims to raise absolute economic performance of *all* regions, and should be viewed in the wider context of Government policies to raise levels of national economic performance, i.e. efforts to reduce disparities in growth rates should not be at the expense of UK plc.

¹⁰ Regional Futures: England's Regions in 2030: Arup/Regional Forecasts/OEF 2005

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- Second, the PSA2 objective is to narrow the gap in regional per capita GVA growth rates. There is recognition that reducing gaps in growth rates between regions will be, at best, a long-term aim, and that improving absolute economic performance of regions is the immediate aim.

The specific PSA2 targets are to achieve an absolute and sustainable improvement in economic performance by 2008, and to narrow the rate of divergence in GVA/head across the regions by 2012. The base figure is the (adjusted for inflation) average 2.75% p.a. GVA/head in London, the south east and east regions, and 2% in the south west, midlands and northern regions achieved in the 1990s. By inference, the targets for the south east, east and London regions is 3% GVA/head p.a. with the other regions no more than 0.5% p.a. behind.

Secondly, there are the Northern Way and Midlands Way initiatives, regional assistance, decentralisation and public spending policies and programmes, all to mitigate the effects of the differential growth of private sector activity in the south.

Northern / Midlands Way Strategies

The transformational ambitions of the 'Northern Way' and its sibling 'the Midland Way' rightly demand our attention. These are focussed regional initiatives, contemporary versions of long standing regional development frameworks. They exist against a backdrop of market forces broadly moving in the opposite direction. Thinking on transport has to respond to their agendas as well as to responding to the growth of the south east; both will play a part in uplifting the economy, and in both areas there are the wider issues of social policy and the environment to consider too. In summary:

- The **Northern Way** is based on eight city regions of which Manchester and Leeds are the largest (combined population about 6 million). It sets out ten policy priorities for employment, skills, encouraging innovation and entrepreneurs, transport (particularly to ports and airports and between and within the eight city regions in the north), and housing.
- The **Midlands Way** emphasises the polycentric urban structure of the regions and proposes focussing action on raising productivity through smart use of technology and knowledge; developing gateways and linkages including improvements to transport, communications, communities and events; and smart renaissance for expanding choice and growth that comprises a regeneration agenda for housing, planning and the public realm as well as opportunity for employment and skills.

London and the South East

The last ten years has seen a raging debate in the south east between the supporters of growth and restraint, that has focussed mainly on housing targets and housing land allocations, and to a lesser degree on providing transport for the growing populations and the growing demand for travel.

Nationally, real house prices have grown by an average of 2.7% p.a. over the last 20 years, faster than any other country in Europe. The Barker review¹¹ estimated that to reduce annual house price growth to 1.8% would require a 50% increase in new homes and house-building would need to be almost double 2002-3 rates to reduce the real price increase of 1.1% p.a. Around 60% of the national net increase in homes will be needed in the south east where demand is strongest (and where approximately half the population currently live).

Currently, the housing policy comprises a combination of targets (which now have to respond to demand at sub-regional level) and a focus on four growth areas (the Communities Plan):

- Milton Keynes/south midlands (itself a very wide area, with a plan to expand the existing towns/cities of Milton Keynes, Northampton, Towcester, Daventry, Wellingborough, Kettering, Corby, Bedford and Aylesbury);
- the M11 corridor (London – Stansted – Cambridge – Peterborough);
- the Thames Gateway; and
- Ashford (Kent).

¹¹ “Review of Housing Supply: Final Report”, Kate Barker [report to ODPM and HM Treasury], March 2004

Interventions

Learning from Best Practice

No country has achieved the perfect economic model, and a one-size-fits-all approach is inappropriate in a world of complex economies and diverse communities. The following are just some of the examples where policies have become an important source of stability and / or competitive advantage.

- Strong **workforce skills** help firms and individuals adapt to change, and compete in an increasingly open global economy. Governments are responding. For example, the number of graduates is rising fast across the world – almost half of young Australians now go through higher education, and China has more than doubled the number of university students in the last five years.
- **Labour force flexibility** is important in maintaining high employment in the face of structural change. There are many aspects of flexibility: the US has a relatively low regulatory burden on employers and a high degree of geographical mobility, whilst Sweden has effective re-training schemes and generous childcare provision to maximise employment opportunities for women
- **Infrastructure** provides the fundamental services without which a modern economy cannot function. Governments that anticipate and meet demands for infrastructure can help to prevent the bottlenecks that constrain growth. China, for example, has invested massively to provide the infrastructure needed to facilitate growth.

Responding to Global Economic Challenges: UK and China; HM Treasury October 2005

Central and regional government are faced with a divided Britain. On the one hand, an ever-expanding world city region in London and the south east; and on the other, midlands and northern regions that must contend with the effects of declining manufacturing on their great cities and conurbations. At national/regional level, fulfilling the policy aims to resolve the effects of this fundamental shift in economic geography presents a major challenge.

In 2005, the Regional Futures study¹² reviewed possible interventions. In summary, the conclusions were as follows:

Differential public spending	Already heavily in favour of the midlands/north. Limited scope for further application and limited effect on disparities
Planning restraint in the south	Already applied. Further restraint will lead to high house prices, lower quality of life, off-shoring etc

¹² Op cit. pp. 60-73

Differential infrastructure investment	Lead to capacity shortages in the south with similar effects to planning restraint
Public sector relocation	Limited scope
Regional economic development	Limited impact on disparities
Airports policy	Now largely determined. Impact depends significantly on surface access
North-south High Speed Line	Beneficial impact on the midlands and the south east could be significant.

Across the whole spectrum of interventions that could be deployed to address the north/south output gap, most were being deployed already with limited effect, and the scope for any one to have an impact sufficient to reduce GDP disparities is also limited. However, the report did consider high speed rail from London to the midlands and concluded it could be significantly beneficial.

...the ease with which multi-site operations can now be managed has enabled “back office” functions to be decentralised and sub-contracted. Although telecommunications can link sites at any distance, the tendency has been for the majority of the shifts so far to be to the suburbs and the adjacent region rather than further afield. This is presumably because a significant amount of face to face contact is still needed. The consequence for global cities is to reduce overall employment levels in the centres and increase them in the suburbs and surrounding towns and cities, usually within a range of 1-2 hours’ travel from the centre. New transportation technologies, such as high-speed trains, may expand this sphere up to 100-200 miles distant, embracing nearer provincial cities.

Four World Cities, 1996

There is an interesting comparison to be drawn here with what emerged from work commissioned by the English regional development agencies in January 2004. This was the work looking at “Surface Infrastructure of National Economic Importance (SINEI)”¹³. The SINEI analysis concluded that there is a gap in the current appraisal process – “a means of systematically identifying surface transport infrastructure and interventions that are of national economic significance”¹⁴. It proposed that for these major schemes a strategic framework of transport requirements should be agreed. The initial SINEI analysis highlighted a set of schemes that should be national priorities, but that are not in any delivery programme:

- fast, limited stop rail services from all regions to Heathrow Airport;
- high speed long-distance rail services from regional capitals to London;
- stronger east-west connections from M6 to the M1 north of the M62;
- stronger east-west connections on the M6/A14 corridor between industrial centres and east-west ports;
- stronger east-west connection linking communities on the south coast and perhaps linking to the south west and south Wales.

The SINEI work has since been developed into an outline appraisal framework for major projects in a continuation exercise for the Department of Transport¹⁵.

Since this work was completed, the importance of the city regions as the foundation block for economic growth has emerged¹⁶. The implications for the transport networks are that there will have to be regional commuting networks capable of supporting the major centres in the city regions.

The implication for high-speed rail is that it has to address not just the challenge of the burgeoning south eastern economy and the problems of highly differentiated regional economic performance, but also help to fashion these wider commuting patterns that will emerge as the strong provincial cities emerge with re-invigorated economies.

¹³ “Surface Infrastructure of National Economic Importance (SINEI)”, A Study for England’s Regional Development Agencies, Faber Maunsell and Ecotec, January 2004.

¹⁴ SINEI Executive Summary p.2

¹⁵ Surface Infrastructure of National Importance: Faber Maunsell/Ecotec for English RDAs 2004

¹⁶ See for example the “State of the English Cities” Michael Parkinson, ODP, London, March 2006.

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November 2006, London.