

in brief...

Powerhouse of cards?

It is not yet clear whether the UK government's commitment to a 'Northern Powerhouse' will survive the change of personnel at the top. But as **Neil Lee** explains, the idea of seeking to reduce regional disparities via spatially targeted investment – whether focused on a single city or otherwise – raises big questions for policy.

One of the basic tenets of urban economics is that larger cities tend to be more productive. The obvious example in the UK is London, which is both large and highly productive, and so brings benefits to the whole of the South of England. In contrast, while there are many Northern cities, these are relatively smaller, and the economy of the North is weaker.

Prior to the appointment of the new prime minister and chancellor of the exchequer, the government's central focus for addressing this problem was the 'Northern Powerhouse'. In a 2014 speech, George Osborne, the then chancellor argued that: 'The cities of the north are individually strong, but collectively not strong enough. The whole is less than the sum of its parts.' The apparent solution was to join the Northern cities: 'Not one city, but a collection of northern cities – sufficiently close to each other that combined they can take on the world.'

This is not a new idea: Labour's John Prescott, among others, had tried to create a Northern agglomeration to

counterbalance London. But the Northern Powerhouse has achieved name recognition beyond that of most similar polices, and so become a powerful political brand.

It isn't hard to see the influence of urban economics in the Northern Powerhouse agenda (see, for example, Henry Overman's 2013 *CentrePiece* article). The idea that some UK cities might be smaller than they should be comes down to Zipf's law, an empirical regularity which suggests that city sizes should follow a particular distribution: the second city is half the size of the biggest city, the third is a third the size and so on. According to this approach, the medium-sized cities of the UK are smaller than they should be, given the size of London.

While the initial focus of the Northern Powerhouse was about agglomeration, a far wider set of policies became part of this agenda. In his speeches on the topic, Osborne described four 'ingredients' – policy areas – of the Northern Powerhouse. The first is transport, and there have



been important moves to coordinate transport, with the establishment of Transport for the North, and a series of transport improvements funded. But as CEP research shows, the economic case for these improvements is not always clear-cut (Gibbons, 2015).

The second policy area is devolution. There have been real moves to devolve power to local areas, including a series of devolution deals with the city regions of Liverpool, Sheffield, the North East and Tees Valley. Yet again, the evidence base here is weak. We don't really know whether these policies are likely to increase growth in the North.

Third, there have been moves around science and innovation with new institutes established for research into graphene and other advanced materials. Again, we know that science and innovation are important for long-term growth. But the evidence for spatially focused investments, rather than funding the best science wherever, is weaker. Moreover, the new institutes have far smaller budgets than those of similar new centres in London.

Finally, there are moves around culture. New funding has been found for an arts centre in Manchester and various projects to commemorate the First World War, among other things. But these are only small-scale.

The Northern Powerhouse is an ambitious plan – Osborne described it as a way of ‘closing the decades-old economic gap between North and South’. It has become a powerful political brand, regularly cited both with approval or disapproval and used to give government policy coherence to the public. It is hard not to be sympathetic to the idea, but it does raise some big questions for policy.

First, the Northern Powerhouse agenda has exposed tensions between the economically rational desire to focus investment where returns are highest, and the political view that funding should be spread out geographically. It isn't clear whether there should be a focus on one city – Manchester – or if new investment should be spread across the North. Initially, the policy seemed to be focused on Manchester – the archetypal Northern ‘resurgent city’ and one with a long tradition of focused, collaborative and competent local government.

But it has been hard for the government to invest in one city alone, and other cities have lobbied for their share. Even within the Northern Powerhouse area there is disquiet about the ‘goodies’ going to Greater Manchester. Cities outside the North have also lobbied for their share and, in response, the government has set in place a plan to make Birmingham the ‘Midlands engine’. Policies such as the devolution deals, described as part of the Northern Powerhouse, have been extended to the Midlands. The result has been that the Northern Powerhouse looks more about competition for resources rather than spatially focused investment.

Second, it is far from clear how much money is being

offered as part of the plan. New investments such as the Sir Henry Royce Centre for Materials Research are big (£235 million), but far from the scale of similar investments in London (London's Crick Institute cost at least £660 million). While the financing for the Northern Powerhouse is fuzzy, there are similar stories for each of Osborne's ‘ingredients’. Regardless of the economic merits of individual spending commitments, the finances devoted to the Northern Powerhouse seem slim for such a major aim, particularly given the funding cuts facing Northern councils.

A third question is perhaps the most important: what are the underlying causes of regional disparities, and does the Northern Powerhouse do enough to address them? Everything cited as being part of the Northern Powerhouse – city size, transport infrastructure and the science base – are important determinants of regional disparities. But as CEP research shows, the key factor explaining the higher productivity of the South is the skills or qualifications of the local population (Gibbons et al, 2014). Yet the Northern Powerhouse does little about this.

It is hard not to like the Northern Powerhouse as an idea, and many of the policy experiments such as the devolution deals or transport improvements seem sensible. But it is also a problematic agenda, which raises questions about the extent to which spatially targeted investment is possible and how much the government is willing and able to commit to reducing disparities.

This article summarises ‘Powerhouse of Cards? Understanding the “Northern Powerhouse” by Neil Lee, Spatial Economics Research Centre (SERC/Urban Programme) Policy Paper No. 14 (<http://www.spatial-economics.ac.uk/textonly/SERC/publications/download/sercpp014.pdf>).

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Further reading

Steve Gibbons (2015) ‘Planes, Trains and Automobiles: The Economic Impact of Transport Infrastructure’, SERC/Urban Programme Policy Paper No. 13 (<http://www.spatial-economics.ac.uk/textonly/SERC/publications/download/sercpp013.pdf>).

Steve Gibbons, Henry Overman and Panu Pelkonen (2014) ‘Area Disparities in Britain: Understanding the Contribution of People vs. Place through Variance Decompositions’, *Oxford Bulletin of Economics and Statistics* 76(5): 745–63.

Henry Overman (2013) ‘The Economic Future of British Cities’, *CentrePiece* Volume 18(1), Summer (<http://cep.lse.ac.uk/pubs/download/cp389.pdf>).