Local governments in the UK have been writing economic development plans for decades, mostly with limited success. So can the latest drive to boost national productivity through local efforts show that this time is different? **Henry Overman** and **Naomi Clayton** have looked at a wide range of evidence to draw up a set of principles for local policy-makers seeking to design an effective industrial strategy.

Developing an effective local industrial strategy

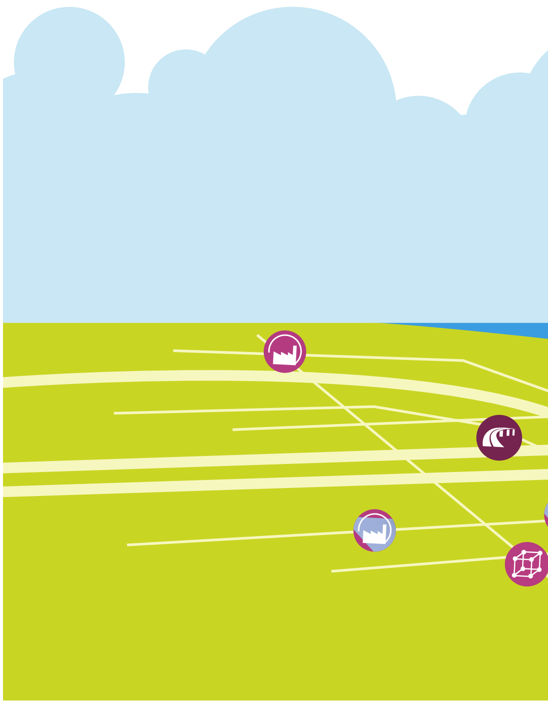
The UK's poor productivity performance has been the source of much debate and policy focus over the last few years. Without an increase in productivity, we won't see rising wages or higher standards of living. Against a backdrop of continued wage stagnation and huge variations in productivity across the country, the government has invited local leaders up and down the country to come up with strategies to address sluggish productivity in their areas.

But the reality is that local leaders have been writing similar economic development strategies for decades, with mixed success. How can they ensure that the new local industrial strategies succeed in boosting productivity where others have failed?

To help answer this question, the What Works Centre for Local Economic Growth has published a report on the 'do's and don'ts' of economic strategies. We've drawn on a wide range of economic research (in particular, Rodrik, 2004, and Tirole, 2017), one-to-one and group meetings with local areas, discussions with central government and the team's many years of experience in advising local government.

We have used this collective knowledge to develop a set of principles that we think local policy-makers should consider when designing local strategies, starting with a clear understanding of the state of the local economy through to evaluation and feedback mechanisms to ensure that the emphasis is on 'what works'.

Strategy development needs to involve consideration of how the economy is evolving. Technological change, globalisation and demographic change, among other trends, will continue to have transformative effects on local economies.



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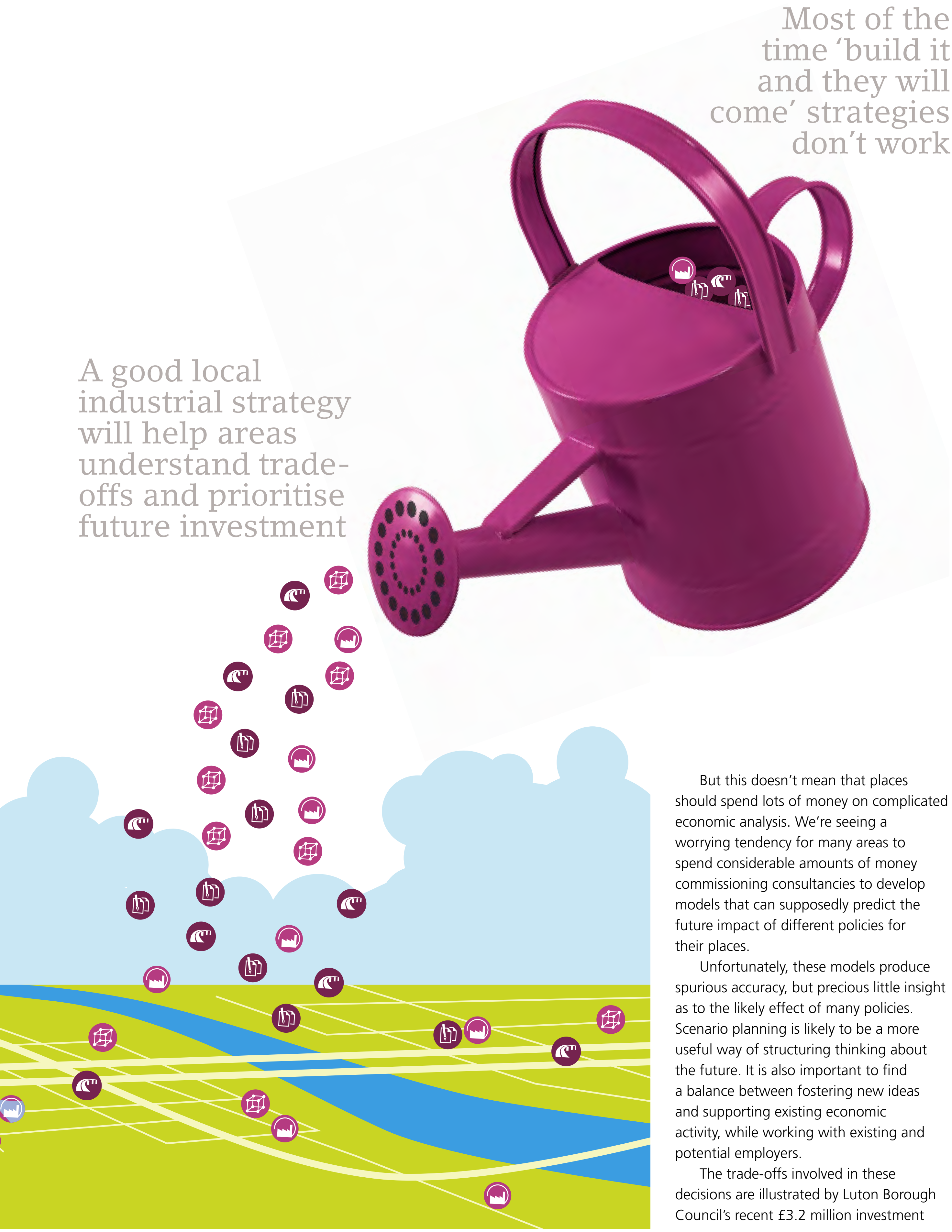

A good local industrial strategy will help areas understand trade-offs and prioritise future investment

But this doesn't mean that places should spend lots of money on complicated economic analysis. We're seeing a worrying tendency for many areas to spend considerable amounts of money commissioning consultancies to develop models that can supposedly predict the future impact of different policies for their places.

Unfortunately, these models produce spurious accuracy, but precious little insight as to the likely effect of many policies. Scenario planning is likely to be a more useful way of structuring thinking about the future. It is also important to find a balance between fostering new ideas and supporting existing economic activity, while working with existing and potential employers.

The trade-offs involved in these decisions are illustrated by Luton Borough Council's recent £3.2 million investment package with local employer Peugeot to help save the town's Vauxhall van factory. While this may safeguard the factory's 1,400 jobs for now, it comes at the opportunity cost of not being able to spend as much on other activities whose benefits to the economy would need to be comparatively assessed if an informed decision is to be made.

A good local industrial strategy will help areas understand trade-offs and prioritise future investment. Whatever the intervention, it needs to be based on a clear rationale. What's the market failure, and can it be usefully addressed by the public sector?

There are some problems that local policy will not be able to address and some policies won't work. We know, for example, that most of the time 'build it and they will come' strategies – essentially supply-side policies to generate demand – don't work. A relatively recent example includes the £100 million investment in technology incubators in Wales in the 2000s: some had occupancy as low as 4% and overall costs per job were around £200,000.

One area where the rationale for intervention is often clearer than others is skills. We know that area-level differences in skills are one of the most important factors driving differences in local economic performance. We also know that firms may not provide enough training if they worry that trained workers will leave, benefiting firms other than the ones that pay for the training. As a result, firms and individuals are likely to under-invest in skills and employment training.

Improving skills within a local area can be achieved either by raising the skills of existing residents and workers, or by attracting in more high-skilled workers. Places need to identify the range of options and compare expected costs and benefits.

Interventions to improve the skills of existing residents may involve a focus on the early years and school performance. Work in progress in this area includes efforts by the Early Intervention Foundation, the Education Endowment Foundation and the 'opportunity areas' to develop a better understanding of what works to improve the quality of teaching, literacy and numeracy, careers and mentoring.

Apprenticeships can improve skills levels and stimulate further training among the existing workforce – and the new local industrial strategies offer an opportunity to pilot and test solutions to raise demand for them (both from firms and workers).

An alternative approach is to attract more skilled workers from elsewhere. Places will need to think about the feasibility and cost-effectiveness of a range of options that might affect both the demand and supply side of the market for skills. In the space available, we can only consider a few examples, but our report provides more detailed discussions of different alternatives and their possible impacts.

On the demand side, the relocation of public sector employment, such as the BBC's move to MediaCityUK in Salford, can increase the overall market for skilled workers. Accelerator and incubator spaces may also have an impact providing that they are addressing the growth challenges actually faced by local firms (rather than wishful thinking about those barriers, as in the example of the Welsh tech incubator); so too could efforts to address issues with improved access to finance.

On the supply side, lowering the cost of living for skilled workers by tackling housing and transport problems is likely to have an impact on location decisions. Again, our report provides more detailed discussion of the role that local areas might play in solving these problems.

But many policies aimed at changing the distribution of skilled workers are 'zero-sum' – a worker who moves to an

Area-level differences in skills are one of the most important factors driving differences in local economic performance

area has to come from somewhere else. And only a limited number of places are likely to see significant relocation of government jobs. Interventions to improve the skills of existing residents are more likely to deliver direct benefits to disadvantaged residents, supporting the inclusive growth agenda.

Running through all of this is the need to work with the private sector to design and deliver interventions. Engaging with employers can help to develop a more granular understanding to identify where the barriers to growth lie – and what types of intervention are most likely to remove them.

Some of the most successful employment training initiatives involve employers throughout and are more successful as a result. Take the Per Scholas WorkAdvance programme, which delivered information technology training and employment support for low-income individuals in the Bronx.

Evaluated through a rigorous randomised control trial (RCT), it was found to have significant impacts on employment and wages. Each component of the programme – from initial screening to post-retention and advancement services – required providers to be more employer-facing than traditional programmes.

Direct involvement of the private sector in these types of intervention – either in the decision-making process or by getting them to co-fund programmes – helps to ensure that employers have some 'skin in the game'. Sharing the cost may be a more efficient way to allocate scarce resources and help to ensure that interventions respond to employer demand, leading to better outcomes.

But it's important to find the right balance. The real challenge for 'mayoral combined authorities' and 'Local Economic Partnerships' is to find a way of developing relationships with the private sector, while being careful to avoid 'capture' by local vested interests. Consulting only the local biggest employer could result in advocating a training focus that benefits them but not the wider business base, and which does not give workers the transferable skills they need. Consulting widely with a range of businesses and representative bodies, and using independent panels to scrutinise the evidence and strategies, can help to avoid this.

And finally, as new programmes are implemented, we need to evaluate them and embed what works into future strategies. It's unlikely that places are going to be able to put full-scale evaluations in place for every intervention. But focusing efforts on key, scalable interventions could teach us a lot, and there is a growing number of 'gold standard' RCTs that can tell us about the causal impacts of a diverse range of interventions. Our web page describes dozens of real world examples, including RCTs, in our series of evaluation case studies (freely available at: www.whatworksgrowth.org/resources/).

Using evaluations to make future investment decisions can ensure that industrial strategy is more effective over the longer term

This article summarises 'Developing an Effective Local Industrial Strategy', published by the What Works Centre for Local Economic Growth (http://www.whatworksgrowth.org/resources/developing-an-effective-local-industrial-strategy/).

Henry Overman is professor of economic geography at LSE, a research associate in CEP's trade and urban programmes and director of the What Works Centre for Local Economic Growth. **Naomi Clayton** is deputy director of the centre.

Further reading

Dani Rodrik (2004) 'Industrial Policy for the Twenty-first Century', Centre for Economic Policy Research Discussion Paper No. 4767.

Jean Tirole (2017) *Economics for the Common Good*, Princeton University Press.