

ELECTION ANALYSIS

Urban Renewal and Regional Growth: Muddled Objectives and Mixed Progress

- Since 1997, Labour has committed to improve the UK's 'underperforming' neighbourhoods, cities and regions.
- The public service agreement on regional growth commits the government to 'improve the economic performance of all English regions and reduce the gap in economic growth rates between regions'. There is little evidence of *significant* progress against this objective.
- The role played by the regional development agencies (RDAs) is hard to assess. There is no compelling evidence on whether RDAs are a good or bad thing.
- The government has also committed considerable resources to trying to improve outcomes in deprived neighbourhoods. Expenditures have provided important public goods, for example, improved social housing. But there appears to have been little progress in narrowing the gap between the outcomes for the most seriously disadvantaged individuals and the rest.
- As with RDA expenditure, it is difficult to get compelling evidence on the impact of these initiatives. Based on the best evidence that we have available (for the New Deal for Communities), a reasonably well-funded 'area-based initiative' has not, on average, improved individual outcomes in targeted areas.
- Some argue that there can be no assumption that 'success' is best measured by what happens to individuals as opposed to what happens to areas. Most economists would disagree with this suggestion: they view improving places as a means to an end rather than as an end in itself.
- Understandably, constituency-based politicians often care about area outcomes irrespective of the effect on individuals. Add to this the fact that voluntary 'sorting' in response to initiatives makes their impact very hard to evaluate and it is clear why the thinking of all political parties on the objectives for – and effectiveness of – spatial policy remains muddled.

Introduction

Since its election in 1997, the Labour government has been committed to improving the fortunes of the UK's 'underperforming' neighbourhoods, cities and regions. It has used a complex array of policy initiatives to try to achieve this objective.

This Election Analysis considers the evidence on the effects of some of these initiatives, with a focus on the role of 'area-based initiatives', which try to improve outcomes in particular areas. It also considers the overall impacts.

The evidence suggests that progress against objectives has been mixed. This is unsurprising. The economic processes that drive spatial differences are poorly understood and what evidence we do have has played little part in the formulation of policy. As a result, there is confusion about what urban and regional policy could and should try to achieve. This confusion is shared by all political parties.

Regional policy

Places throughout the UK – regions, cities and neighbourhoods – appear very unequal. This is true if we look at average earnings, employment, education and almost any other socio-economic outcome.

For example, in 2005, in terms of gross value added (GVA) per person, the highest ranked (NUTS 3) regions in the UK were West Inner London and Berkshire with GVAs of £44,050 and £39,850 respectively. The lowest ranked were Liverpool and Blackpool, with GVAs that were half of those in London and Berkshire: £19,800 and £21,050.

These individual examples are representative of a broader trend – the top ranked 10% of UK (NUTS 3) regions have GVA at least 50% higher than the bottom ranked 10%.

The public service agreement on regional growth commits the government to 'improve the economic performance of all English regions and reduce the gap in economic growth rates between regions'. To help achieve this objective in England, the government created regional development agencies (RDAs) in 1999.¹ The devolved administrations all have agencies with broadly similar objectives.

There is little evidence of *significant* progress against this objective. The most recent assessment (August 2009) by the Department for Business, Innovation and Skills (BIS), reports 'some progress'. Between 2002 and 2007, five regions improved on baseline (1990-2002) while four regions saw weaker growth.

In terms of narrowing differences in growth rates, assessment is based on the gap between the Greater South East and the North, Midlands and South West. Again, comparing up to 2007 against the 1990s baseline suggests a small improvement: the gap has fallen from 0.6 to 0.5 percentage points. But add in the 2008 downturn and the gap *rises* to 0.7.²

¹ The London Development Agency was created in 2000.

² Data taken from 'Key Indicators' (<http://stats.berr.gov.uk/reppsa2/>), accessed 25/01/10.

The role played by the RDAs in these developments is hard to assess. PriceWaterhouseCoopers found that every £1 spent by the RDAs added £4.50 to regional GVA. These numbers seem very high, reflecting the fact that the evaluation almost certainly attributes things to RDA activities when they (or something else that generates value) would have happened regardless.

Estimating the ‘additionality’ of government interventions is difficult. But it would be fair to say that the approach adopted by most evaluations of RDA expenditures (asking project managers or recipients) is close to the bottom of the ranking in terms of rigour.

In short, there is no compelling evidence as to whether the RDAs are a good or bad thing. Labour is committed to them; the Conservatives and Liberal Democrats are (probably) committed to abolishing them. It should be clear that these positions cannot truly reflect evidence-based positions on RDAs’ effectiveness.

The Conservatives’ concerns are mostly around RDAs’ new regional planning role (they think powers should rest with local authorities) and the fact that they are unelected ‘quangos’. The Liberal Democrats share concerns about accountability, but say that they will look at value-for-money on a case-by-case basis.

Deprived neighbourhoods

Turning to smaller neighbourhoods, the government has again committed considerable resources to trying to improve outcomes. The National Strategy for Neighbourhood Renewal (2001) focused on deprived neighbourhoods and aimed to ensure that within 10 to 20 years, no one would be seriously disadvantaged by where they live.

As well as directing mainstream funding, specific programmes have been associated with this objective: the New Deal for Communities (NDC), the Neighbourhood Renewal Fund (NRF) and, slightly later, Housing Market Renewal Pathfinders. New initiatives continue to appear, for example, the Working Neighbourhoods Fund. Unsurprisingly, given the complexity and the state of government finances, we do not know what the policy mix in this area will look like in the next parliament.

Working out the overall impact on deprived neighbourhoods from existing interventions is difficult. Expenditures have clearly provided important public goods to deprived areas, for example, in the form of improved social housing and public spaces.

But aside from the consumption value of these goods, there appears to have been little progress in narrowing the gap between the outcomes for the most seriously disadvantaged individuals and the rest.³

Of course, this does not mean that policy has had no impact: things may have been worse without them. But as with RDA expenditure, it is difficult to get compelling evidence on the impact of these initiatives.⁴

³ National Equality Panel (2010).

⁴ For example, the recent evaluation of the NRF states that: ‘There is very limited data available to evidence outcomes at a local level. Therefore we provide comment on who benefited from NRF based on how funds have been targeted and stakeholder perceptions of the outcomes arising.’

The evaluation of the NDC is more rigorous.⁵ The NDC is a 10-year policy, which spends £400 per household per year in 39 of the most deprived areas of the country. Evidence on its impact to date is disappointing. According to the summary of the recent evaluation:

‘NDC areas are experiencing positive change, some of which is over and above that occurring in the comparator areas.’ Specifically, ‘[a]fter controlling for base characteristics, residents in NDC areas have on average seen statistically greater positive change in relation to their satisfaction with the area compared with comparator residents [...]. This is not, however, the case when a respondent’s initial level of satisfaction is included.’

In the full report, it appears that (controlling for socio-demographic factors) individuals in NDC areas did *worse* on between two and seven out of 15 indicators (depending on the time period). In other words, based on the best available evidence, a reasonably well-funded area policy has not, on average, improved individual outcomes in targeted areas.

The report leaves some wriggle room. There may be area policies in the comparison areas that are just as successful – although it seems unlikely that they could be as costly as the NDC. It is also early days for the NDC – although the evaluation also suggests that the largest gains came first.

The report itself suggests that:

‘There can be no assumption that “success” is best measured in relation to what happens to individuals as opposed to what happens to these areas over time’.

This argument is simply baffling. If such policies have equity objectives – for example, helping the disadvantaged – then we should care about what happens to individuals *not* areas. The fact that the NDC evaluation can suggest the exact opposite highlights confusion about what urban and regional policy could and should try to achieve.

What can and should spatial policy do?

As should be clear, the evidence on the impact of UK area policies is mixed and there is certainly scope for improving the rigour of the methods used to assess the impact of policy. Unfortunately, the situation is not much better looking outside the UK.

For example, two recent evaluations of Empowerment Zones in the United States go some way towards addressing methodological concerns. But while one of them finds large positive effects of the zones, the other finds almost no effects.⁶

A recent study provides a useful summary of existing US evidence.⁷ It suggests that:

- (i) Tax incentives seem to work and are most effective at redistributing *within* urban areas. But they are costly and easily offset if labour or land costs in poorer

⁵ See <http://extra.shu.ac.uk/ndc/>.

⁶ See Busso et al (2009) and Kolko and Neumark (2009).

⁷ Bartik (2003).

areas are kept relatively high (as a result of, for example, national pay-setting or local land regulations).

- (ii) 'Extension' activities to improve productivity through, for example, benchmarking can be relatively cost-effective.
- (iii) There is limited evidence on the benefits of 'cluster' approaches or focusing on high-technology industries.
- (iv) The evidence for targeting small businesses is not particularly compelling because so many of these businesses sell locally so displacement of existing businesses is a real risk.
- (v) Evidence on Enterprise Zones or other policies targeted at deprived neighbourhoods is mixed.

In the light of this mixed evidence base on the effectiveness of many interventions, some economists have begun to argue for trying alternative approaches. One possibility is to try to address the problem that *relatively* expensive land and labour costs provide a disincentive for firms to relocate activity to deprived neighbourhoods.

In the UK, national pay structures for public sector workers ensure that their salaries do not show as much spatial variation as private sector wages. Given that the public sector is disproportionately large in deprived areas (for example, it is approximately 32% in Newcastle, 36% in Liverpool and 42% in Hastings compared with 27% for the GB average), these higher public sector wages may crowd out private sector employment.

The Conservatives' manifesto (and subsequent interviews with David Cameron) have emphasised the need to increase the share of the private sector in some areas. Interestingly, while the Conservatives appear to be suggesting that public sector employment crowds out private sector employment in deprived areas, the recent Smith report for HM Treasury assumes the opposite (so that moving jobs out of affluent areas has no effect on employment because they are simply replaced by private sector jobs).⁸ Unfortunately, there is essentially no evidence available to distinguish between these claims.

National pay structures also have a variable impact on the quality of public services across regions. Propper and Van Reenen (2010) show that the national pay system in the NHS decreases service quality (as measured by hospital death rates) in high cost areas, such as London, without increasing quality much in the low cost areas.

Land use controls that make commercial property expensive in deprived areas also act to reduce employment further. For example, commercial rents in Birmingham are *twice* those in San Francisco. This is mostly because Birmingham's planning restrictions are more restrictive than San Francisco, itself a highly regulated city by US standards.⁹

Another possibility, although one that is even less popular with politicians than suggestions to liberalise land planning, is to encourage greater mobility *out of* deprived areas.¹⁰

⁸ Smith (2010).

⁹ Cheshire and Hilber (2008).

¹⁰ Leunig and Swaffield (2008).

Understanding what drives spatial disparities

Given the conflicting evidence base, one thing that is needed is much greater clarity about the way spatial disparities arise and what, if anything, policy should do about them. Here, the academic research literature can help. Spatial policy at all scales is largely based around concerns about ‘area inequalities’. But area outcomes are simply aggregates of the outcomes for people who live and work in these places.

Without further information, we do not know whether the economic outcomes for people currently living in West London would be any different if they lived and worked in Newcastle. We have no way of knowing if the productivity of West London and Newcastle would change if these movements of people took place. Similarly, we do not know whether replicating the economic, policy, institutional and environmental regime of West London in Newcastle would change anything without moving people.

In short, while it is relatively easy to measure aggregate economic differences between places, it is much harder to work out what these differences mean in terms of the economic advantages and disadvantages that a place offers to the people who live and work there.

It is also easy to assume from looking at these overall figures for different areas, that inequalities between places are big drivers of individual inequality. But this clearly need not be the case. For individuals, the differences between those living and working within the same local area may far exceed the differences between the average worker in different areas.

Knowing whether ‘between-place’ inequalities or ‘within-place’ inequalities dominate is thus crucial to understanding the role that spatial policy might play in addressing individual inequality. Evidence increasingly points to the fact that within-place inequalities play a much more important role than between-place inequalities.

Even when we are able to address between-place inequalities (for example, through improving public spaces in specific areas), the location decisions of individuals, coupled with the working of the housing market, often mean that poorer individuals quickly become priced out of much improved areas.

This is one of the key reasons why economists tend to argue for a policy focus on people over place.¹¹ That is, they argue for viewing improving places as a means to an end rather than as an end in itself. From this viewpoint, it would be very odd to see as successful a policy that improved average outcomes in a neighbourhood simply by moving out some of the disadvantaged inhabitants.

Unfortunately, but unsurprisingly, constituency-based politicians (from both local and national government) sometimes care about area outcomes irrespective of the effect on individuals. Add to this the fact that voluntary sorting in response to initiatives makes impact very hard to evaluate, and it is clear why the thinking of all political parties on the objectives for – and effectiveness of – spatial policy remain muddled.

¹¹ See, for example, Glaeser and Gottlieb (2008).

Conclusions

The Labour government has spent considerable sums trying to narrow the gap between poor areas – neighbourhoods, cities and regions – and the rest. We have very little compelling evidence on the impact of these initiatives.

This means that the parties' positions on regional and urban economic policy tend to be based on belief rather than evidence. In addition, policy is often confused about why we care about spatial disparities and what, if anything, will be the impact on individuals of addressing them.

April 2010

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