Cities limited

Tim Leunig and James Swaffield
edited by Oliver Marc Hartwich

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Foreword

by Paul Cheshire
Professor of Economic Geography,
London School of Economics
and Political Science

This paper is an entertainingly written but scholarly assessment of the efficacy of British urban policies, woven into an account and diagnosis of why our cities are as they are and in the state that they are in. It is to be greatly welcomed: I look forward to reading its two successors, surveying experience of urban development and policy abroad and then drawing lessons as to what policies might be successful.

It is particularly useful because we have been so ill served by urban analysis over the recent past. At least since the Inner Area Studies of the mid 1970s the field has been dominated by people who think primarily not in analytical but in physical terms – architects, engineers and planners; or who have utopian visions of how cities should be. The present authors seem, if anything, too generous in their assessment of the roots of Britain's urban policies. While it is fair to judge early regional policy in the intellectual context of Keynesianism and the positive experience of state direction in World War II, more recent policy has neither taken note of developments first in urban economics and more recently in spatial economics; nor has it been inclined to evaluate – if necessary collect – relevant evidence. There were plenty of expert voices about, even in the late 1970s, who were warning that small scale neighbourhood interventions were doomed because they failed to take account of how urban labour and housing markets worked; or that Enterprise Zones would prove no more successful than 'Special Area' policies; or that densification ignored the structure of demand and the welfare of individuals and would inevitably lead to both rising real house prices and increased housing market volatility.

The authors of this paper, however, manage to put Britain's urban problems into a skilful and informed account of 400 years of economic history which both informs and helps understand the source of such problems and why so much policy effort has been misdirected; and they manage, in a few pages with a simple methodology, to demonstrate (not beyond doubt but on the balance of probability) that recent urban policy has had no real impact. It is possible that things in the problem cities would have been even worse without policy but their evidence strongly suggests policies have been mainly trying to push water uphill.

> “There are hopeful signs, however, and this paper is not just one of the signs but a source of hope”

There are, however, encouraging signs out there. The successor department to the DETR/ODPM has an Analytical Division and is taking the analysis of the sources of spatial problems seriously. There is no hope for useful policies unless there is first a serious effort to diagnosis causes based on a clear understanding of what cities contribute and how they work. There is, equally, in a system of government which is spatially representative, an inevitable tendency to overvalue apparent spatial equity. The Americans talk about 'pork barrel politics'. We like to dignify it with a nicer name but we still end up building Humber bridges and subsidising cultural follies in declining economies. And unlike the Americans our social housing and land use planning system effectively nail people in place and the poorer they are, the more firmly are they nailed.

Nor is it clear that policy makers have fully absorbed the lessons of the failed attempts to direct industry in the 1950s and 1960s. Successful employers wanting to expand in prosperous places may no longer have to apply for an Industrial Development Certificate; but they do have to apply for planning permission and that – as the experience of Vodafone or the Wellcome Trust Genome Campus testifies – is much harder to get in prosperous places than it is in declining ones. Even more alarming is that while one cannot see the present government ignoring agglomeration economies and forcing, say, Rolls Royce to relocate to Sunderland that is not true with organisations within government control. Why should it not be just as economically damaging to force the BBC to go to Manchester and forego, perhaps undermine, the obvious media industry agglomeration economies in London? Or force the ONS to go to South Wales and rupture its links with its highly skilled staff, its service suppliers and its customers?

There are hopeful signs, however, and this paper is not just one of the signs but a source of hope.

Executive Summary

As the first nation to make the transition from being overwhelmingly rural to overwhelmingly urban, Britain has a unique urban history. The location and to a large extent the size of our cities were determined by the Industrial Revolution and our 19th-century heyday as the workshop of the world. Liverpool is where it is, and the size it is, because of ship-based trade with the Americas. Our towns and cities are disproportionately based in coal producing areas, because these had the greatest natural advantages at the time.

In the 20th century, with the rise of the service sector, road and air transport grew at the expense of rail and coastal shipping; being located close to the motorway network that runs down the spine of the country has the advantage now. And Britain's economic centre of gravity moved South as economic ties with Europe grew stronger; Heathrow, not Liverpool, is our most important port.

Deindustrialisation hit many industrial cities hard, particularly in the North. Since the war governments have tried a variety of policies to persuade and cajole firms to move to areas such as Merseyside. Beginning in late 1940s, firms wanting to expand in areas of low unemployment required permission to do so. In the early 1960s over 20 per cent of applications from firms wanting to expand in the South East were refused.

Such draconian policies were accompanied by grants to firms that opened new factories or expanded existing ones in depressed areas, usually ones in which a previous industry was in unavoidable decline. The use of grants was matched by tax breaks in the 1980s, a decade that also saw the Conservative Government bypass local councils, which it considered inimical to private sector redevelopment.

The Labour Government elected in 1997 was committed to urban renewal. But however well-intentioned, the sheer number of initiatives it introduced has led to great complexity. Lord Rooker, the regeneration minister, himself described policy as "a bowl of spaghetti". Some aspects, such as grants to firms, represented continuity with the past, while others, such as the New Deal for Communities that concentrated on boosting small, well-defined pockets of poverty, were quite new.

This paper does not assess any one particular policy, but poses the most basic question: has urban policy, in any shape or form, managed to turn around the fortunes of our declining cities?

> "Has urban policy, in any shape or form, managed to turn around the fortunes of our declining cities?"

We answer it by studying 18 towns and cities that have been recipients of significant urban policy intervention, particularly in the past ten years. Our group includes large cities such as Sheffield, as well as smaller towns such as Hastings and Blackburn, Stoke and Bradford; it covers a broad swathe of Britain, from Merthyr Tydfil in the West to Hull in the East, from Glasgow in the North to Southampton in the South.

We compare the performance of each of these towns or cities on a range of outcome measures: gross value added – the equivalent of national income at local level; levels of personal incomes and whether people have got richer over time; and levels of unemployment. And we look at whether people want to live in these areas: are they moving in or out and are house prices moving up or down?

In no case do we look at the absolute values. Incomes have risen across Britain in the past ten years, as they have done in every decade since the start of the Industrial Revolution. Instead we judge the success of urban policy by two yardsticks: how does the performance of these areas compare with that of the nation as a whole? And how does that performance compare with a sample of successful towns, such as Edinburgh, Bristol or Milton Keynes?

The picture is gloomy. Relative to the national average and the performance of our group of successful towns, our set of "urban policy towns" performed poorly. The single most important indicator is Gross Value Added (GVA), which measures the ability of an area to generate wealth. On this measure the shortfall between our urban regeneration sample and the national average has doubled since 1997, from a gap of 7 per cent to one of 14 per cent. In contrast our sample of successful towns has increased its lead, from 29 per cent to 46 per cent above the national average. Successful towns are becoming more successful, poorer towns are being less successful.

We find the same picture for personal incomes: rich towns have become richer, poor towns have become poorer. Although unemployment has fallen across the UK as a whole, your chances of being unemployed today are 40 per cent higher in our sample of struggling towns – the same situation which existed in 1997. The status quo has been reinforced, not removed, in the last 10 years in these cities.

The result is inevitable: people want to leave our sample of urban policy towns. While house prices have gone up everywhere in Britain, they have gone up less in these towns than across Britain as a whole, and significantly less than in our successful towns. Between 1994 and 2005, the period for which we have data, the average house in our urban policy sample has risen in value by £82,000, whereas the average price rise for our sample of successful towns is £125,000, that is to say: house prices rises have been over 50 per cent greater in one group than the other. It has never been harder to leave a struggling town than it is today. Yet despite that, their population is falling, as some people manage to break away, in search of the better opportunities that they rightly realise exist elsewhere.

Across all of our indicators, cities which have received significant urban policy intervention and funding, not only failed to converge with other UK cities, but they slipped farther behind. In this respect our findings bear out those of many other authors who have recently drawn attention to this issue. The relative gap in living standards between the nation as a whole and people living in these towns is growing. We conclude that the prospects for those living in areas that have received significant levels of assistance from urban policy programmes have not been transformed in the last decade.

Introduction

This paper is the first of a series of three. It describes the legacy of Britain's early industrialisation and summarises the urban policies of successive governments since 1945. It sets out to establish the facts and shows that urban policy has failed to improve the prospects of declining towns. The second paper will look at experience in Europe, Asia and North America and discuss what can be learnt from their successes and failures. In the third paper we will set out our recommendations. These will be comprehensive and radical, offering a new vision for people living in cities that are underperforming. Needless to say there are no easy solutions, and all of the policies that we propose will have disadvantages. But we believe that continuing as we are now, repeating the mistakes that we have made before and watching many towns and cities slowly deteriorate, is the worse outcome. Let us instead try policies that work.

1

The role of cities

Cities as symbols of success

Successful cities have always been symbols of successful nations. The classical civilisations of Greece and Rome were, by contemporary standards, remarkably urbanised. Rome, at its peak, had more than a million residents. Nor is this phenomenon particularly European: we think of Alexandria and Carthage in Africa, Antioch and Ur in Angkor Wat and Varnasi in South Asia, and Manchu Picchu, Caral and Cusco in Latin America. Advanced societies have always been characterised by great cities. These were places of effective and wide-ranging government, merchants and trade, learning and scholarship.[1]

> “Cities are not only symbols of a nation’s success; they are sources of that success and have always been so”

As Europe went into decline in the post-Roman era, its cities declined as well. Rome became a shadow of its former self and many of the towns that the Romans had built across Europe all but disappeared. For many years, historians referred to this era, when civilisation appeared to go into retreat, as the Dark Ages.

As the world entered the modern era, cities began to resume their importance. The Italian city states and the Hanseatic League in Germany are the best known examples. Unsurprisingly, there was also a strong link between city development and economic growth. The most advanced nation was always the most urbanised: the Dutch in 1600, the British by 1800.[2] Others followed in Britain’s footsteps, making the transition from rural agricultural economies to urban industrial and, later, urban service-based economies. In the 20th century cities such as New York held iconic status as symbols of economic prosperity, a magnet for many within the United States and around the world. The Statue of Liberty’s implicit promise to the world’s "huddled masses, yearning to be free" is the more meaningful because it stands at the entrance to a great city.

Today the world is looking east, and in Shanghai we have a symbol of the new China: urban, affluent and taking great leaps forward. There is nothing new in what we see there: Shanghai today is similar to Tokyo a generation ago, New York a century ago and Rome two millenniums ago: proof that a nation is on the move and that its peoples have new opportunities, economic, social and cultural.

Cities as sources of success

Cities are not only symbols of a nation’s success; they are sources of that success and have always been so. The evidence is simple but compelling: wages in urban areas are higher than those in non-urban areas, even taking into account the different types of industries and skill levels in different places.[3] Since urban firms pay higher wages (and, for that matter, higher rents) the only way in which they can survive against competition from non-urban firms is by being more productive. The biggest cities pay the highest

1. Soja E, *Postmetropolis: Critical Studies of Cities and Regions*, Chapter 2, pp 50-67, Blackwell, 2000

2. Wrigley E A, *Poverty, Progress, and Population*, p 88 CUP, 2004

3. Glaeser E L, ‘Urban Colossus: Why is New York America’s largest city?’, Harvard Institute of Economic Research Discussion Paper No 2073, Fig 7, p38, 2005; Glaeser E L, and Mare D C, ‘Cities and Skills’, *Journal of Labor Economics*, 19(2): 316-342, 2001

wages and have the highest rates of productivity. In short, cities work.

The greatest economists have always been interested in the sources of cities' economic advantages. Adam Smith wrote at length in the *Wealth of Nations* of the role of cities in facilitating the division of labour, ideas developed a little over a century later by Alfred Marshall.[4] Today the new economic geography offers rigorous mathematical tools to analyse both urban and regional issues.[5] This literature has looked at, among other things, the role of distance as a barrier to economic interaction and development. It has demonstrated that the spatial concentration of production leads to agglomeration benefits through increased internal and/or external economies of scale.[6] Firms may gain from proximity to their suppliers and/or customers, from increasing plant size and a pool of suitably skilled workers.[7]

Cities raise productivity because people talk to each other.[8] Firms learn more easily what their customers want and what their suppliers can offer. They watch their competitors and individual workers watch each other. Their "know-what, know-how and know-whom" are all increased. As the neoclassical economist Alfred Marshall put it: "The mysteries of the trade become no mysteries; but are as it were in the air."[9] It is no surprise that film-making is concentrated in one place, although that it is in northern Los Angeles has at least an element of chance. Proximity to customers is usually defined as "market potential", the proportion of national or even international GDP that is close by. Here cities score highly, especially those with good connections to other cities. London businesses benefit from the non-stop services to many destinations from the capital's airports, as well as the number of flights a day on core routes such as London-New York.[10] Even when your customers are spread all over the world, you can reach them more quickly from a well-connected city.

Transport lies at the heart of the continued success of many other cities. New York grew on the back of its port facilities and its access to the Great Lakes, becoming the transport hub for manufacturing on the east coast of America. This not only brought in large flows of trade and money, but also people. Banks, insurance companies and other financial institutions developed alongside. Glaeser suggests that cities excel in delivering services because they eliminate physical distance between people and firms.[11] As both London and New York prove, industries that have relatively strong linkages with customers and or/suppliers have become increasingly concentrated in areas of prosperity.[12]

As every employer knows, cities and towns can often meet the demand for skilled staff. This is especially true in those that have strong specialisations. A century ago, Burnley in Lancashire had more than 15,000 weavers, probably the greatest concentration of weavers in any town in the world.[13] A new mill owner setting up in Burnley could be confident that he could attract, say, a hundred weavers simply by paying the going wage rate. Today we see the same pattern in London, but in finance. A foreign investment bank can open in London safe in the knowledge that it will be able to hire a large number of high quality investment bankers without having to pay a premium. The ability to attract staff draws firms in. The availability of jobs means that people wanting to work in the sector move to the town, and the cycle becomes self-reinforcing.[14]

These patterns suggest a role for public policy. If local or national government can, in some way, "kick start" this process of agglomeration, then it has the potential to become self-fulfilling. And once a city reaches a certain size, issues of infrastructure that almost inevitably involve government become important. A huge gridlocked city has very low market potential because people cannot meet and talk easily; a city with

4. Marshall A, *Principles of Economics*, 8th edition, 1920

5. Glaeser E L, Kallal H D, Scheinkman J A, Shleifer A, 'Growth in Cities' *The Journal of Political Economy*, 100(6): 1126-1152, 1992; Glaeser E L 'Learning in Cities', NBER Working Paper, No W6271, 1997; Scott J, *Global City Regions*, OUP, 2001; and Evans A, *Economics and Land-Use Planning*, Blackwell, 2004

6. Venables A J, 'Equilibrum Locations of Vertically Linked Industries', *International Economic Review*, 37(2): 341-360, 1996

7. Duranton G and Puga D, 'Micro Foundations of Urban Agglomeration Economies', *NBER Working Paper No 9931*, 2003

8. Storper M and Venables A J, 'Buzz: Face-to-face contact and the urban economy', *Journal of Economic Geography*, 4(4): 351-370, 2004

9. Marshall A, op cit, p 271

10. Ormerod P, Cook W and Rosewell, B 'Why Distance Doesn't Die: Agglomeration and its benefits', *GLA Economics Working Paper* 17, 2006

11. Glaeser E L, 'Urban Colossus: Why is New York America's largest city?', Harvard Institute of Economic Research Discussion Paper No 2073, 2005

12. Feldman M, 'Location and innovation: the new economic geography', in Clark G L, Feldman, M and Gertler M S, *The Oxford Handbook of Economic Geography*, pp373-94, OUP, 2000; Patel P, and Pavitt K, 'Large Firms in the Production of the World's Technology: an important case of non-globalisation', *Journal of International Business Studies*, 1st Quarter: 1-2, 1991

13. Board of Trade, Report of an Enquiry by the Board of Trade into Earnings and the Labour of Working People in the UK. I – Textile Industry in 1906, London, 1909, p 47

14. Cushman & Wakefield, *UK Cities Monitor 2007*, September 2007

fast and comprehensive transport allows the interactions that are the foundation of agglomeration economies. Government investment in public infrastructure can raise the rate of return to private sector investment "crowding in" rather than "crowding out" entrepreneurial activity, and so raising economic growth.[15] Of course, we must be careful: additional taxes to fund infrastructure can have negative effects.

> "Until recently, cities were invariably associated with higher mortality"

Cities are large enough to support competing firms in many sectors. Consumers benefit because prices fall, and the more efficient firms take market share from the less efficient. That process in turn increases the incentive for all firms to be innovative, raising the level of economic growth. The electronics cluster in Silicon Valley and the biotech cluster in Boston are examples of this sort of success, which has been called "endogenous innovation".[16]

Finally, cities provide a greater variety of ways to spend time and money. Broda and Weinstein estimated that American consumers valued the increased choice of consumer goods from increased imports between 1972 and 2001 at $260 billion, demonstrating that the gains to consumers from variety are significant.[17] Services – especially cultural services, such as ballet and art, are almost always more plentiful in cities, the music scene is livelier and heterogeneous tastes better catered for. City living also offers a greater choice of neighbours and neighbourhoods: from gritty urban to family-oriented suburbia, from penthouses to detached homes.

The vulnerability of cities

Until recently, cities were invariably associated with higher mortality. In 1841, life expectancy at birth in Manchester was just 25 years, little more than half the national average.[18] Even for those who survived to adulthood the downsides of city life were serious. In 1833, a factory commissioner wrote: "I believe most travellers are struck by the lowness of stature, the leanness and paleness which present themselves so commonly to the eye at Manchester."[19] Diseases, such as cholera and tuberculosis, were easily transmitted in the crowded conditions of 19th-century cities.

Even today, cities are more vulnerable than rural areas to many disasters. Pandemics can be expected to spread more easily and more quickly in densely packed urban areas. When the economic order collapses, cities suffer first: if the transport system breaks down the city starves, while the countryside may have surplus food. This vulnerability is part of the reason why cities have always been the main sources of riot and rebellion. In addition, their role as intellectual centres makes them more prone to revolution even when economic conditions are favourable. We can think back to mass meetings of the working class in cities such as Manchester in the industrial revolution, the Russian Revolution which began in St Petersburg, *les événements* in Paris in May 1968, repeated recently in the *bidonvilles*, or the riots in Toxteth and Brixton a generation ago. As Glaeser and Sacerdote note, factors such as the face-to-face contact with a wide number of people that make cities perform so well as knowledge hubs also make them highly suited to criminality.[20]

Potential roles of government in cities

Can the State generate economic success and prevent economic collapse? We noted earlier the very real benefits of clustering that many cities have experienced over the years, in Britain and elsewhere. Spillovers

15. Barro R J and Sala-i-Martin X, 'Technological Diffusion, Convergence and Growth', NBER Working Paper, No 5131, 1997

16. Aghion P, Bloom N, Blundell R, Griffith R and Howitt, P 'Competition and Innovation: an inverted U relationship, NBER Working Paper, No 9269, 2002; Aghion P and Howitt P, '*Endogenous Growth Theory*', MIT Press, 1998

17. Broda C and Weinstein D, 'Globalization and the Gains from Variety', NBER Working Paper No 10314, 2004

18. Voth H-J, 'Living standards and the Urban Environment', pp 268-294, in Floud R and Johnson P (ed) *The Cambridge Economic History of Modern Britain*, Volume 3: *Industrialisation*, 1700-1860, CUP, 2004, Fig 10, p 285

19. Floud R, Watchter K W, and Gregory A, *Height, Health and History: Nutritional status in the United Kingdom, 1750-1980*, CUP, 1990, p 1

20 Glaeser E L and Sacerdote B, 'Why Is There More Crime in Cities?', NBER Working Paper, No 5430,1996

from firm to firm can raise productivity within a city and then throughout the economy, so increasing tax revenues. They can raise employment and encourage both people and firms to invest in acquiring skills and new technologies. Such spillovers are classic examples of what economists term "positive externalities", and provide a clear theoretical rationale for state intervention. After all, firm A will not include the benefits to firm B of their co-location, but government can use policy to ensure that firms locate near together, so that each gains from its proximity to the other.

Today urban policy is not – in the main – about urban areas per se; it is about those urban areas in trouble. Urban policy does not mean taking the most prosperous small towns and seeing whether we can make a prosperous small town into a prosperous large town. We do not, for example, see the possibility of high-skill-based spillovers in the Cambridge area leading government or urban policy specialists to talk about how we can make Cambridge a vibrant high-skill, high-wage, high-employment city of half a million, one million, or two million people. Making successful cities bigger, perhaps much bigger, is not what we mean by urban policy today.

Instead we mean looking at, and trying to look after, cities and urban areas that are missing out on the prosperity that we see elsewhere: places such as Liverpool, Glasgow, Hull and Merthyr Tydfil, not Cambridge, Chester and Edinburgh. The same is true elsewhere: in the US urban policy concentrates on trying to revive cities such as Cleveland and Baltimore, not on building up Phoenix, while in Italy it emphasises Bari and Palermo, not wealthy Milan.

Some cities seem to prosper for a very long time, even forever. London, Oxford and Edinburgh, have always been richer than Britain as a whole, just as New York, Boston and San Francisco have always been richer than the average place in the United States. But other towns have not been so fortunate, most obviously manufacturing cities such as Oldham in Lancashire or Detroit in Michigan. Can urban policy prevent this sort of decline? If so, which policies are effective? Or are we postponing – at great expense – the inevitable? These are the hardest questions of all.

2

History of British urbanisation

A precocious beginning

In 1600 Britain was, like every other nation in the world except the Netherlands, profoundly rural. Only 8 per cent of its population lived in towns of 5,000 people or more. Indeed, given the low levels of travel in this era, we can safely conclude that a majority would never have visited a city in their lifetime. That changed markedly between 1600 and 1800, during which time British urban growth accounted for more than half of all European urbanisation. One prominent economic historian has described the phenomenon as being of "truly exceptional character".[21] In the 19th century Britain was transformed even more dramatically from a still primarily rural society to one in which living in cities and towns became the dominant way of life. As early as 1841 around half the British population lived in towns, this figure rose to two thirds by 1871, to three quarters by 1891 and to about four fifths by the outbreak of the First World War.[22]

In this Britain was precocious, in two senses. As the world's first industrialising nation, it inevitably became the world's first urban nation. But there is more to it than that: 19th-century Britain was much more urban than we would have expected given its level of income. In 1890, we find that three quarters of people living in Britain lived in towns, but when other European countries reached the same level of income, only half their populations lived in towns. Throughout the 19th century Britain was around 50 per cent more urbanised than we would have predicted from its stage of development.[23]

This early move to industrialisation is more than a historical curiosity because it determined the location of cities and their organisation far earlier than happened elsewhere. Britain is essentially unique in having urbanised before the invention of the car and, given the levels of urbanisation in 1840, even before the invention of the train.[24] Later developing nations and cities have not had to tackle the legacy of unsuitable location and organisation inherited by some of our early urban developments. Further, by industrialising at such very low levels of income, Britain also created low quality cities, built for the living standards of the 19th century. The problems of our city centre water supply and drainage systems are not simply that they are old, but also that we use and dispose of far more water than could ever have been imagined a century and a half ago.

High levels of urbanisation in Britain were driven by Britain's early move away from agriculture, itself a product of our commitment to free trade in agricultural goods, exemplified by the repeal of the Corn Laws in 1846. Remarkably, it was not until after the Second World War that agricultural employment in France and Germany fell to levels that Britain had reached in 1840.[25] Postwar Europe saw a massive transfer of labour directly from agriculture to service-based urban employment, and urban areas were designed around this transition. Britain, in contrast, moved population from agriculture to industrial urban centres in the 19th century, and then had to transform them into post-industrial service sectors after 1945.

21. Wrigley E A, *Poverty, Progress, and Population*, p 89, CUP, 2004

22. Crafts, N F R, *British Growth during the Industrial Revolution*, pp 57-62 OUP, 1985

23. Ibid

24. Crafts N F R, and Mulata A, 'What Explains the Location of Industry in Britain, 1871-1931?, *Journal of Economic Geography*, 5(4): 499-518, 2005

25. Ibid

What determined the location of British cities?

Nineteenth-century Britain was driven by coal, a relatively heavy and bulky commodity for the amount of energy it contains. When compounded by very low levels of boiler efficiency, it meant that a lot of coal was used for any given amount of economic output. This provided a huge incentive to locate factories, and so towns, close to the coalfields or, failing that, close to the ports and canals that transported the coal. The population living in the coalfield regions quadrupled from 1.3 million to 5.3 million between 1841 and 1911.[26]

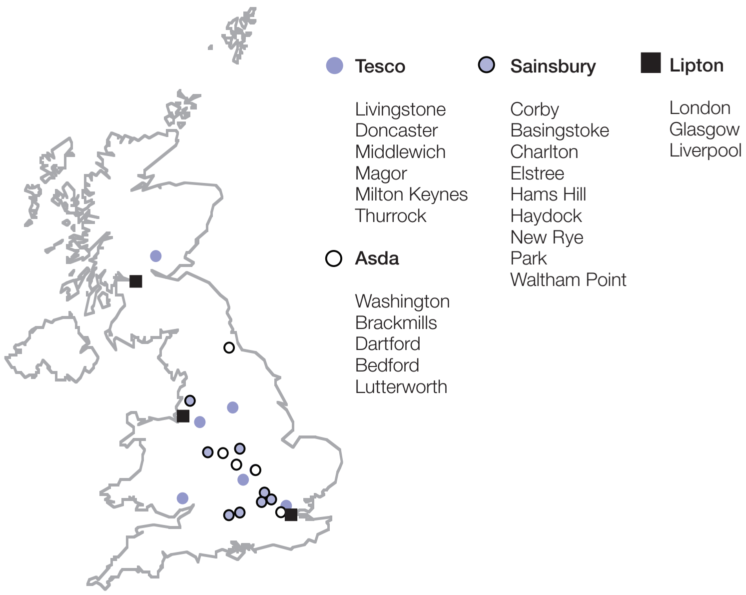
As the world's leading proponent of free trade, international trade was also more important in Britain than elsewhere: its ratio of merchandise trade to GDP was double that of France, and quadruple that of the United States between 1870 and 1913.[27] And since exports and imports moved exclusively by ship, Britain's cities were particularly likely to be located either on the coast or in places well-connected to it by canal.

20th century changes: technology and markets

Britain entered the 20th century with a population living in cities whose locations were often a function of their past reliance on coal, manufactured exports and shipping. That world has disappeared. Factories no longer burn coal, manufacturing employment has fallen by 70 per cent[28] and the rise in air and road transport means that shipping is no longer as important for international trade as it was in the 19th century, and has become negligible for internal trade. In general, transport costs declined dramatically over the 20th century, freeing many firms from having to locate near to raw materials and allowing them to locate nearer to markets instead.[29] Today the main sources of energy – oil, gas and electricity – are essentially geographically neutral.

The move from coastal shipping and rail to transport by lorry and van has not only removed the advantage once enjoyed by coastal areas, but has given it to inland areas. When coastal shipping was an

Figure 1: Major grocery distribution centres 1900 and 2007



26. Baines D and Woods W, 'Population and Regional Development, 1840–1940', in Floud R (ed) *The Cambridge Economic History of Modern Britain*, Volume 2: *Economic Maturity*, 1860-1939, CUP, 2004

27. Findlay R and O'Rourke, K H, 'Commodity Market Integration', NBER Working Paper No 8579, 2001

28. As a share of the labour force cf, Guthrie J, 'The quiet rebirth of the manufacturer', *Financial Times*, 26/07/2007, *www.ft.com/cms/s/69e7d9d6-3b26-11dc-8f9e-0000779fd2ac.html*; Crafts, N F R, *British Growth during the Industrial Revolution*, p58 OUP, 1985

29. Glaeser E L, and Kohlhase J, 'Cities, Regions and the Decline of Transport Costs', *Papers in Regional Science*, 83(1): 197-228, 2003

important form of transport, Liverpool was an attractive place in which to locate a warehouse. Once roads took over, Liverpool found that its coastal location had become a disadvantage since it was now more isolated than inland areas. In contrast, a town such as Daventry in Northamptonshire, which would be under great disadvantage as a distribution centre in a water-transport era is very desirable as a location today: close to the M1, M6 and M40, as well as to the A14 trunk road to Felixstowe. We can see this in practice: Lipton's, Britain's biggest grocer in 1900, had three warehouses, in London, Liverpool and Glasgow, all major ports.[30] Today Tesco, Britain's largest supermarket retailer has its biggest warehouse at Milton Keynes, far from the coast but in the middle of the motorway network. The warehouses for Britain's supermarkets are overwhelmingly located along the M1-M6 corridor from London to Leeds-Manchester (Figure 1).

A change in the location of demand has also worked against the North, particularly since Britain joined the EEC in 1973. Between 1972 and 1992 the combined shares of Dover and Felixstowe in British merchandise exports rose from 10 per cent to 29 per cent, with Heathrow accounting for another 17 per cent, while Liverpool's share fell from 11 per cent to 3 per cent.[31] Regression analysis confirms that employment in manufacturing is enhanced by proximity to export ports and that the mean distance of manufacturing employment from Dover fell sharply after the mid-1980s.[32] Similarly Head and Mayer note the strong tendency of Japanese foreign direct investment (FDI) into Europe to prefer to locate in areas of high market potential.[33] They estimate that from 1984 to 1995, a region whose market potential was 10 per cent higher would have a 10 per cent greater probability of attracting Japanese FDI. The data indicates that both agglomeration effects and proximity to demand were part of the picture.

We can see the increasing desirability of locating in the South East more formally when we look at market potential, which includes the level of income in an area, but also gives weight to income outside the area, taking into account transport costs.[34] There have always been big differences in the market potential of different regions. Table 1 shows that in 1911, the market potential of Scotland was just 56 per cent that of London and the South East. By 1985 (the latest year for which figures are available), the figure had dropped to 38 per cent. The overwhelming reason for this, further analysis shows, was that changes to transport systems disproportionately benefited the South East: had a modern transport system existed in 1911 Scotland's market potential would have been 37 per cent that of the South East, a figure almost identical to that of today. The story is much the

Table 1: Market Potential [35]

% of London and South and South East values	1911	1985	Effect of *transport* changes	Effect of *other* changes
Scotland	56.1	37.5	-19.5	+0.9
Wales	69.1	53.6	-19.9	+4.4
North	62.0	47.5	-15.7	+1.2
West Midlands	61.3	71.5	+1.9	+8.3

30. Crafts N F R and Leunig T, 'The Historical Significance of Transport for Economic Growth and Productivity', Research *Annex 1.1, Eddington Transport Review*, 2005

31. Overman H G and Winters A L, 'The Geography of UK International Trade', *Environment and Planning* A, 37(10): 1751-1768, 2005

32. Ibid

33. Head K and Mayer T, 'Market Potential and the Location of Japanese Investment in the European Union', *The Review of Economics and Statistics*, 86(4): 959-972, 2004

34. Ormerod P, Cook W and Rosewell, B 'Why Distance Doesn't Die: Agglomeration and its benefits', *GLA Economics Working Paper 17,* 2006

35. Ibid, Table 7

same for the North and for Wales: modern transport systems have brought advantages to the South East relative to other areas. The only exception is the Midlands, which has benefited along with the South East from the transition to road transport. As Crafts notes, "as the world moved from rail and ship to road and ferry, the 'peripherality' of the North, Wales and Scotland was seriously accentuated".[36]

The effects of transport on peripherality were not the result of policy decisions; policymakers did not decide to build ports in the North in the 19th century and roads in the South in the 20th century. Instead, the geography of different places made them more or less able to take advantage of the transport technologies that emerged as the economy developed. This will continue to be the case. If the giant Airbus A380 offers the lowest operating costs per mile then that will reinforce the role of the biggest airports, which can generate enough demand to fill such aircraft. That, in turn, would increase the relative market potential of the London area. If Boeing's smaller 787 offers lower operating costs per seat mile then it will enable airlines to offer non-stop services from London to secondary cities around the world, and from provincial cities within Britain to primary cities around the world. Connectivity would increase throughout the country, though the magnitude of the effects is unclear.

Where are we now?

Urban policy faces challenges that should not be underestimated. Once we were a maritime economy looking to a global empire, now we are a road-based economy looking much more towards Europe. There is no reason to think that towns and cities whose origins were determined by the need for access to seaborne coal and cotton, for example, will be well placed for the challenges of the service-dominated 21st century. Those areas of Britain that are farther away from London – including almost all Britain's towns of significant size – have been unlucky because changes in transport technology and changes in the destination of our exports have worked against them. In addition, improvements in urban transport and communications, combined with increasing skill levels, appear to have raised the optimal size of cities over the last one hundred years, implying that many of Britain's larger towns and smaller cities are not only in the wrong place, but are also of the wrong size.

36. Crafts N, 'Market Potential in British Regions, 1871-1931', *Regional Studies*, 39(9): 1159-1166, 2005, p. 1164

3

A history of urban policy

19th century origins, 19th century success: public health

Policies directed at specific urban areas have a long history in Britain, even though the phrase "urban policy" dates only from the 1960s. In the 19th century, both national and local government played important roles in developing and changing the nature of cities.

> "Demolition peaked in the 1960s, when around 100,000 homes were demolished each year"

By the turn of the century infrastructure investment at local level was big business. Even if we exclude housing, investment in local infrastructure in 1900 was almost as large as total investment in manufacturing, notwithstanding Britain's role as the workshop of the world.[37] Although some of this investment was privately financed in the hope of commercial return, the majority was funded by local authorities; the first substantial expression of urban policy. This was recognised in the 1870s when government set up the Local Government Board, which required local authorities to report on what they had been doing to improve their areas.

Much of early urban policy was related to public health and the consequences of living in far closer proximity than before. The construction of sewers, waterworks and street improvements (many needed for drainage) were extremely expensive and amounted to half of all urban policy expenditure.[38] It was effective: life expectancy in large towns increased about twice as rapidly as for the country as a whole between the 1840s and the First World War.[39]

Slum clearance followed. The Artisans and Labourers Dwelling Act 1875 was designed to improve working-class living standards through wholesale demolition and rebuilding. The various Acts that allowed railway companies to route lines through dense urban areas in order to reach the centre of towns also insisted that any working-class housing demolished in the process be replaced.

More and better housing was a regular feature of urban policy over the past century. Christopher Addison, the President of the Local Government Board, had to implement Lloyd George's 1919 pledge of "homes fit for heroes", which introduced large-scale social housing. The Housing Act 1930 (Greenwood Act) gave grants to local authorities for widespread replacement of the existing housing stock: 90,000 houses were demolished in 1938. The Town and Country Planning Act 1944 (better known as the "Blitz and Blight" Act) also envisaged that many of the properties damaged in the war would be replaced rather than repaired. Yet as late as 1963 a survey found that over 5,000 homes in Oxford were still without a fixed bath.[40] Many older city centre homes were torn down in the postwar years, with the residents offered new housing on the outskirts of town. Demolition peaked in the 1960s, when around 100,000 homes were

37. Millward R, 'Urban Government, Finance and Public Health in Victorian Britain', pp 47-68 in Morris R , and Trainor R, *Urban Governance: Britain and beyond since 1750*, 2000

38. Ibid, p 56

39. Baines D and Woods W, 'Population and Regional Development, 1840–1940', p 37 in Floud R (ed) *The Cambridge Economic History of Modern Britain*, Volume 2: *Economic Maturity, 1860-1939*, CUP, 2004,

40. Sladen C, 'H2Oxford', *Oxford Today*, 19(2), Hilary, 2007, p 26

demolished each year, overwhelmingly in urban areas. Since 1982, demolition has become remarkably rare.[41]

Today urban policy has much less to do with those two great obsessions of 19th and early 20th century policy for urban areas. Life expectancy is no longer 40 per cent lower in Manchester than in Britain as a whole, as it was in 1841.[42] In that sense urban policy – in the Victorian sense of the word – has been extremely successful.

Today's housing problems are not particularly urban: they are either the consequence of general supply problems,[43] or of social exclusion, that is, of people being left out of mainstream society.[44] The huge strides that the Government has made in ensuring that social housing meets its Decent Homes Standard has not been matched by a rise in residents' satisfaction levels,[45] suggesting limits to how far improving the physical stock of housing is an effective use of public money.

Urban policy as regional policy: Intellectual origins

Urban policy today concentrates on areas that are falling behind economically. It is the expression of regional policy in an urbanised country. As such its intellectual origins go back to the 1945 post-war settlement, which transformed economic policy. The unemployment of the interwar years had become simply unacceptable and politicians believed that they had the power to prevent it. The commitment to full employment was part of the Government's support for the 1944 Beveridge Report, which laid the foundations of the welfare state and set out to counter the five giants: Want, Ignorance, Disease, Squalor and Idleness.

Regional policy, whether applied to large areas or to individual towns, was part of that shift away from a free-market economy and towards one with larger elements of government intervention. According to neoclassical economics if employment in a town falls, wages will fall (slightly). That will be sufficient to prompt local people to migrate to those areas that offer better prospects, and to lead firms from other areas to migrate to the area in which labour costs are lower. As a result, depressed towns and cities will not remain depressed for very long: neither wages nor employment will fall markedly in response to adverse shocks.

We know that this model bears little resemblance to reality. Wages and employment have fallen and remained low in areas whose core industries have declined. Migration of workers and firms is not at all fluid. In the 1980s, only about 0.5 per cent of skilled workers and under 0.3 per cent of unskilled workers moved region. Nor was migration of unskilled workers, on balance, from declining areas to ones with better prospects. In short, and for reasons that we will return to later, workers do not move to the work. Firms are equally reluctant to move. They are concerned about retaining existing employees, whose experience will be hard to replace. Current attempts by the Office of National Statistics to persuade staff to move from central London to Newport, in South Wales, suggest that this concern is well founded. If they do relocate, firms are more likely to go to equivalent cities where other firms in their sector are already based, rather than to other cities which may offer cost savings. Ormerod et al suggest that financial firms that are priced out of London are far more likely to relocate to Frankfurt, a financial centre, than to Leeds.[46]

There may also be good social reasons for not wanting labour migration within Britain to be too fluid. Such migration requires large amounts of new housing as well as appropriate levels of public and private services. Although people can move, the facilities on which they depend are essentially fixed: you can't supply extra houses, shops or schools at all easily. With a stable population it appears wasteful to abandon a town's perfectly good capital infrastructure, such as houses, roads and

41. Hills J, Ends and Means: *The future roles of social housing in England*, Fig 4.3, p 30, CASEreport 34, 2007

42. Voth H-J, 'Living Standards and the Urban Environment', Fig. 10.4 pp 268-294, in Floud R and Johnson P (ed) *The Cambridge Economic History of Modern Britain*, Volume 3: *Industrialisation, 1700-1860*, CUP, 2004,

43. Barker K, *Barker Review of Land Use Planning*, 2006; Evans A and Hartwich O M, *Unaffordable Housing*, Policy Exchange, 2005; Leunig T, *In My Backyard: unlocking the planning system?* CentreForum, 2007

44. Hills J, Ends and Means: The future roles of social housing in England, CASEreport 34, 2007

45. Ibid

46. Ormerod P, Cook W, Rosewell, B 'Why Distance Doesn't Die: Agglomeration and its benefits', GLA Economics Working Paper 17, 2006

hospitals, simply because its industry is in decline. Indeed, this is a classic example of a "negative externality" – the growing firm does not take into account the cost of providing new infrastructure in the expanding area when it makes its location decision. In theory, therefore, there is a clear case for government to intervene to raise welfare: by persuading the firm to expand in the area that already has all the necessary facilities, society as a whole can save the cost of demolishing them in place A, only to rebuild them in place B.

Policy in a brave new world

The 1940 Royal Commission on Distribution of the Industrial Population took the approach set out above. Its report called for a new independent body to regulate the geographical distribution of industry and to encourage a reasonable balance of industrial development. It was to be given the right to refuse to allow further development in London and the South East, unless it could be proved to be uneconomic elsewhere. A minority report felt that these conclusions were too weak, and argued that government should have greater direct controls over the location of industry.[47]

> "Government offered the carrot of state-provided industrial estates but, perhaps surprisingly to a modern audience, it supplemented this carrot with a very big stick"

In the postwar world, therefore, government set out to persuade work to move to the workers. In doing so it was implicitly subscribing to what is termed the "structural" view of regional differences. According to this view the problems in, say, Bolton are to do with the (inevitable) decline in the cotton spinning industry that once dominated the town. So long as another employer can be persuaded to move to Bolton, all will be well; regional and urban policy has great potential to transform areas of decline into areas of self-sustaining economic success. By implicitly accepting the structural view, government was rejecting the "locational" view, which sees the problems of Bolton not so much in terms of the decline in cotton spinning, but in terms of its geographical location. Today, the locational view is the more predominant, reflecting both developments in economic theory and our experience of regional and urban policy. It is important to appreciate, however, that the attempts of successive governments to take work to the workers were based on what appeared to be sensible theories with potentially attractive outcomes. As the first country to deal with the shift of workers from manufacturing industry to services, we could not learn from others, and had to find our own way. Inevitably, mistakes were made.

Early attempts at regional and urban policy could be very interventionist. The very title of the Distribution of Industry Act 1945 says it all: it was for government, not the market, to determine where a firm should locate. As with the Special Areas Act 1934, which had designated a handful of small, very depressed areas for assistance, the Government offered the carrot of state-provided industrial estates but, perhaps surprisingly to a modern audience, it supplemented this carrot with a very big stick. Wartime building licence controls, codified in the 1947 requirement of an Industrial Development Certificate (IDC) meant that a firm could only open a new factory, or expand an existing one, if the Board of Trade agreed that the location was consistent with "the proper distribution of industry". These controls were used to alter the location of industry significantly: between 1945 and 1947 designated development areas, which included only 16 per cent of Britain's population, received over half the building permits issued.[48] The stick was used to try to move industry to

47. Royal Commission on the Distribution of the Industrial Population, Cmd 6153, HMSO, 1940

48. Scott P, 'British Regional Policy 1945-51: A Lost Opportunity', *Twentieth Century British History*, 8(3): 358-382, 1997, p. 345

the locations that the Government felt to be in Britain's best interests.

Into the 1950s

Policy changed somewhat in the 1950s under the long-lived Conservative administration. Although it is possible to see this as an ideological change, it is probably more accurate to view it as a pragmatic one: unemployment was low across the country and the need for urban and regional policy did not seem as pressing. The draconian framework was retained rather than abolished and IDCs were still required for new factories. What did change was implementation: only 2 per cent of IDC applications (weighted by employment) for factory building in the Midlands and South East in 1956 were refused, compared to more than 20 per cent in 1950.[49] Government kept the stick, but it put it away.

Government spending on new factories and other inducements to move declined sharply, falling by two thirds in real terms. Indeed, if anything, policy returned to the earlier idea of moving workers to the work. This was manifest in the emphasis on building new houses in the South East and particularly in the New Towns Movement.[50]

As regional unemployment rose towards the end of the 1950s, the Conservative Government returned to active policies to persuade industry to relocate to the struggling towns and regions of Britain. Government spending on factory building, and especially on grants and loans to firms, quadrupled to their highest ever level in real terms. IDCs become a more serious constraint on industry: over 20 per cent of IDC applications (weighted by employment) in the Midlands and South East were refused in the early 1960s. Rather than looking at regions as a whole, the Government began to target much smaller, generally more urban areas: regional policy was becoming urban policy. The 1961 Census, which

Case study 1: The New Towns Movement

As the name suggests, the New Towns Act 1946 led to the construction of a number of wholly new towns in Britain after the Second World War. And many existing towns were expanded on what might be termed New Town principles. As well as ensuring that those who had lost their homes in the war were rehoused, the Act was intended to ensure that the quality of housing and the built environment improved. Eight of the first ten New Towns were located near London, with the remaining two in County Durham. The idea of building New Towns in the South East was not to encourage migration to the South, but rather to allow for population to move out of London itself, in line with Abercrombie's influential 1944 Greater London Plan.

The New Towns drew inspiration from the Garden City movement, founded by Ebenezer Howard, which envisaged areas of both local employment and substantial amounts of green space. Two such towns were built – Letchworth Garden City at the start of the century, and Welwyn Garden City between the wars.

The postwar New Towns Movement was conceived on a much larger scale, and almost a million houses constructed from 1945 to 1951 alone. Although they gained an early reputation for poor building standards and dislocated communities, many have matured and become popular places to live. They may have been designed to minimise commuting, but those in the South East are now dormitory towns for workers in London.

Both the Garden Cities and the New Towns are being used to illustrate the potential and pitfalls of the Government's proposed "eco-towns".

49. Ibid, figure 13.3, p 359

50. Atkinson R and Moon K, *Urban Policy in Britain: The city, the state and the market*, Macmillan, 1994

produced local level data for the first time, highlighted the existence of localised pockets of deprivation in a way that had not been possible before.

Government direction of industry could lead to some very odd decisions. In 1957, for example, there were plans to build Britain's fourth steel strip mill. Colvilles, a private sector firm wanted to build the mill at Ravenscraig in Scotland, while Richard Thomas, a state-owned firm, wanted to build it near Newport in South Wales. Rather than reject one plan, the Government ordered the construction of two, technically and economically sub-scale plants, one in each place. One commentator described this as Harold Macmillan's "judgment of Solomon", which rather overlooks that King Solomon showed his wisdom by threatening to cut the baby in half, not by actually doing so.[51] Another writer commented that economic advantage had been "sacrificed deliberately in the interests of immediate social comfort and convenience".[52]

Equally, the Government forced firms that relied on a strong local skill base to expand not where the skilled workers were, but in depressed areas. The Rootes car firm (which eventually became part of Peugeot) wanted to expand its Ryton plant near Coventry at the end of the 1950s. This was not permitted, and Rootes instead built a plant in Linwood, on the outskirts of Glasgow. The plant, opened in 1963, was not successful and was closed in 1981 despite having had three owners and repeated injections of government finance. The Ryton plant, which had been unable to expand in the early 1960s, was itself shut down in 2006. Rootes was not alone in being forced to open car plants in areas with no experience of mass producing cars: two of Merseyside's three car plants, GM Ellesmere Port and the Standard-Triumph Speke factory (closed 1978) were the result of government policy, not management decisions.

Knowing that the Government wanted such firms to move to depressed areas gave them an incentive to solicit grants on false pretences. Ford, for example, realised that its existing Dagenham plant was too congested to expand and had decided to locate its new plant on Merseyside. Nevertheless, Ford stated that it wished to expand Dagenham and, failing that, would like to open its plant in the nearby booming new town of Basildon, in the knowledge that these options would be rejected and that they would be in a correspondingly better position to receive financial assistance.[53]

Urban Policy under Wilson: experimentation and reality

Johnstone and Whitehead write: "In the autumn of 1968 Harold Wilson's Labour government initiated the first distinct urban policy framework in Britain. The birth of this explicitly urban branch of policy occurred with the launch of an urban programme of expenditure mainly on education, housing, health and welfare in areas of special social need".[54] Urban policy was to be holistic, but in essence it looked at the physical infrastructure (including housing, the environment and the sense of place), the social fabric and economic conditions, often with a special emphasis on employment levels.

This commitment to revitalising urban areas and to revitalising depressed regions more generally, was backed with real money. Spending, already at an all time high when Wilson came to office, was increased sevenfold, to more than £2 billion at today's prices. Within this enlarged budget, there was a much greater focus on grants to firms, rather than direct provision of land and buildings. The increasing availability of carrots was matched by increasing use of the stick: in 1966, 30 per cent of IDC applications in the Midlands and South East were refused. And the IDC policy was expanded to cover new office building first in London

51. Owen G, From *Empire to Europe: the decline and revival of British industry since the* Second World War, p128 HarperCollins, 1999

52. Burn D, *The Economic History of Steelmaking*, 1867-*1939: a study in competition*, p. 656, Cambridge University Press, 1961

53. Tolliday S, 'The Rise of Ford in Britain: from sales agency to market leader, 1904-1980' in Bonin H, Lung Y and Tolliday S (eds) Ford:the European History, 1903-2003, 2, pp 73-150, Paris, Plage, 2003

54. Johnstone C and Whitehead M, 'Horizons and Barriers in British Urban Policy', pp 3-24, in Johnstone C and Whitehead M (ed), *New Horizons in British Urban Policy: perspectives on New Labour's urban renaissance*, p 3, Ashgate, 2004

and later in other areas of the South and Midlands. These policies continued for a decade, with spending rising until the mid-1970s, at which point it amounted to more than £3 billion in today's money.

Despite the significant sums of money spent and the significant powers that governments had at their disposal, it proved very hard to persuade firms to relocate. In short, the draconian policies of state direction of industry did not work. The effect of the IDC policy is relatively straightforward to assess: we have a clear set of projects that government refused to allow to go ahead in the manner that firms wanted. If we find that they all moved to depressed towns and cities, and survived and prospered in those places, then we can say that the policy was successful. But an analysis of what happened to projects refused between 1958 and 1971 shows how ineffective the policy was: only 18 per cent went ahead in an area approved by government. Even then, many moved within the South East, rather than to Newcastle, Liverpool or another town in a development district. In contrast, 50 per cent went ahead in the original location but scaled down their plans so that IDC approval was not necessary; 18 per cent led to closure or reorganisation of production; 13 per cent were simply abandoned; and 1 per cent went abroad.[55]

This tells us two things: first, the cost to society of trying to compel firms to move is very high, with the cost born by shareholders and other workers and, ultimately, by society as a whole. Since 82 per cent of expansion plans that were not given IDCs were reduced in size, abandoned, led to firm closures or reorganisations or to jobs moving abroad, we can say that, at first approximation, the cost of moving 18 jobs was 82 jobs destroyed. IDCs were not ineffective, they were positively harmful. This almost certainly understates the cost of moving jobs to depressed areas by government diktat. Had government insisted on the jobs moving to depressed towns rather than to other areas of the South East, the successful number (18) would have shrunk further, and the cost-benefit ratio could have looked even worse. In addition the 82 out of 100 firms whose plans were adversely affected by government were left with smaller and less well designed factories than those they would have chosen themselves. Not only were jobs not created, but the jobs of those already working for the company were endangered by the firm being forced to use premises that were not as well-suited to their needs as they could have been – as was the case with Rootes and the Ryton plant. Finally, the existence of IDCs, and the knowledge that certain types of application would not be approved, almost certainly deterred some firms from even planning to expand. What, after all, is the point of spending management time and effort devising expansion plans when you expect government to say no?

> “Despite the significant sums of money spent and the significant powers that governments had at their disposal, it proved very hard to persuade firms to relocate”

The failure of the IDC system to foster large-scale migration of industry to depressed towns also suggests that the locational view of urban problems is much more likely to be correct than the structural view. After all, if the structural view is correct, firms should have been relatively happy to move location. That 82 per cent of refusals led to no movement away from the hotspot in which the firm wanted to expand tells us that firms were strongly committed to remaining in that place. This in turn should alter our expectations of the likely effectiveness of policies that require firms to move.

As well as IDCs, the Wilson Government introduced another policy that seems unthinkable today: the Regional Employment Premium (REP). Noting that most

55. Wettman R W and Nicol W R, *Deglomeration Policies in the European Community: a report of a comparative study by the International Institute of Management*, Office for Official Publications of the European Communities, 1981

subsidies to firms moving to depressed cities were for the purchase of capital equipment, the REP tried to do the same for labour. In essence, REP knocked about 7 per cent off the cost of employing people in unemployment blackspots. Labour were proud of this scheme when in office, with Tony Benn boasting of its benefits in a party election broadcast on 26th September 1974. But again, the analysis suggests that the policy was largely ineffective, indeed, it appears to have been the least effective of the different subsidy schemes during the 1970s, with a cost per job of around £200,000 in today's money.[56]

Government has learned from these mistakes. Today it is unthinkable that it would require successful employers wanting to expand to apply for permission to do so, although of course the planning system does create constraints for many firms. Equally no one has suggested altering tax rates on employment by place as a way of persuading firms to move to struggling cities.

After the oil crises: urban policy in an era of rapid deindustrialisation

The publication of the White Paper *Policy for the Inner Cities* in 1977 heralded a formal change in urban policy. As had happened at different times from 1945 onwards, politicians realised that the problems of a region were often the problems of its principal cities, and that the problems of its cities were often the problems of particular areas within the city. This also recognised that successful cities – most obviously London – could contain significant areas of poverty which, it was believed, urban policy was well-placed to address. As the White Paper noted, "too little attention has been paid to the economic wellbeing and to the community life of the inner areas".[57] It wanted cities to improve their physical conditions, alleviate social problems and increase their populations. Local authorities were vital, but were expected to work with private and voluntary sectors. The service sector was now considered at least as important to regeneration as manufacturing. The earlier Urban Programme funding streams were dramatically enlarged, although this was largely at the expense of cuts in areas such as REP.

The inner city riots, starting with St Paul's in Bristol in 1980, and continuing in 1981 in Brixton in south London, Handsworth in Birmingham and Toxteth in Liverpool among other places, were sufficiently serious to involve the first use of CS gas on protestors on the British mainland, and to force the Prime Minster, Margaret Thatcher, to cancel a visit to Toxteth on safety grounds. They gave added impetus to urban policy.

The size of the city, not the extent of its poverty, was the better predictor of the likelihood of riots taking place. Nor were the disturbances city wide, but rather involved youths from concentrated pockets of poverty, where relations between the local community (predominantly black) and local police (predominantly white) were antagonistic. Struggling medium size, predominantly white towns experienced much smaller disturbances or remained calm. The resulting policies had a strong political, as well as economic, dimension. Michael Heseltine was named "Minister for Liverpool", and there was a prevailing sense that "something had to be done".[58]

Two policies stand out as emblematic of regeneration under the Conservative administrations of this era: Urban Development Corporations (UDCs) and Enterprise Zones (EZs). The creation of both needs to be understood in the political context of the early 1980s: a fairly ideological Conservative government was in power nationally, but equally ideological Labour councils dominated by militant tendencies controlled many of the biggest cities. Derek Hatton's time as deputy leader of Liverpool council is perhaps the best remembered. Put simply, the

56. Scott P, 'British Regional Policy 1945-51: A Lost Opportunity', *Twentieth Century British History*, 8(3): 358-382, 1997, p 361, uprated using Officer, Lawrence H, 'Five Ways to Compute the Relative Value of a UK Pound Amount, 1830-2005' *MeasuringWorth.Com*, 2006

57. Policy for the Inner Cities: White Paper, p 1, HMSO, 1977, CMND 6845

58. *A Different Reality: Minority Struggle in British Cities* www.warwick.ac.uk/CRER/differentreality/timeline.html

Government believed that the solution to inner city problems involved a greater role for the market, and did not believe that local government would be an effective partner in such a policy. Both UDCs and EZs were designed, at least in part, to bypass local councils.

Urban Development Corporations (UDCs) were public bodies established under the Local Government, Planning and Land Act 1980.[59] They were limited in their life and given broad aims, and matching powers. The first two covered the London Docklands and Merseyside. All were wound up by the mid-1990s, although a second generation of UDCs has been created more recently. The role of the UDC was primarily physical: they sought to create suitable land and buildings for development by, for example, taking over derelict industrial land and transforming it either for light industrial or for service sector use. In many ways UDCs represent a return to the earliest forms of postwar urban practice, in which governments prepared infrastructure and built factories. This, once more, was property-led development.

Taken as a whole, UDCs were unsuccessful in regenerating the areas that they covered.[60] Indeed, as Professor Stephen Hall notes, the main legacy of the UDC experience "appears to have been to discredit property development as a vehicle for urban regeneration".[61] Of all the UDCs, the London Docklands Development Corporation (LDDC) stands out as the most successful: the redevelopment of the Isle of Dogs has been remarkable. But even here we need to be cautious: although the Isle of Dogs has been regenerated, the more distant Royal Docks proved a harder challenge. This has two implications. First, if one corporation can be successful in A but not B, even when the places are as close together as the Isle of Dogs and the Royal Docks, the case for the locational interpretation of the rise and fall of towns and cities is considerably strengthened. Second, if we accept the strength of the locational argument, it warns us to be careful in assigning praise or blame to those involved in regeneration. It is inconceivable that LDDC put more skilled workers into projects on the Isle of Dogs, or that LDDC staff trying to regenerate the Royal Docks were slackers. These were different areas, with different possibilities for renewal. If that can be so between two places so close together, it is even more important that we remember it when trying to interpret the failure of UDCs to regenerate areas such as Tyne and Wear.

The other emblematic policy of the 1980s was the creation of Enterprise Zones, described by the Conservative Chancellor Geoffrey Howe as "my hobby horse".[62] They were part of an attempt to roll back the frontiers of the State, and particularly the frontiers of local government. EZs gave notable tax breaks, including 100 per cent capital allowances for commercial and industrial buildings, and exemption from business rates for ten years. In addition, planning permission procedures were simplified and other red tape reduced. Such zones are common in developing countries trying to attract footloose international firms, and in the United States.[63] The experience of EZs mirrors that of IDC controls a generation before: it is relatively easy to persuade firms to move short distances, but few firms find it at all desirable to move significant distances.[64] Again, this fits with locational but not structural approaches to decline. Given that depressed towns are generally surrounded by areas that, although not as depressed, are still as poor, there is a danger that the gains to one poor area are bought at the expense of a neighbouring area that is also struggling. The House of Commons Select Committee on Education and Employment made exactly this point in its fourth report.[65]

59. The standard history and analysis of UDCs can be found *in Imrie R and Thomas H (eds), British Urban Policy and the Urban Development Corporations*, Paul Chapman Publishing, 1993

60. Ibid

61 Hall S, 'Review: *British Urban Policy: An evaluation of the Urban Development Corporations*, 2nd edition, Rob Imrie and Huw Thomas (eds) 1999', *Journal of Housing and the Built Environment*, 6(1): 115-117, 2001

62. Howe G, *Conflict of Loyalty*, p. 174, 2nd edition, 1995

63. Peters AH and Fishers PS, *State Enterprise Zone Programs: Have They Worked?* 2002, Urban Institute

64. Potter J and Moore B, 'UK Enterprise Zones and the Attraction of Inward Investment', *Urban Studies*, 37(8): 1279-1312, 2000

65. House of Commons, Select Committee on Education and Employment, *4th Report*, para 64, 2000

Case Study 2: Canary Wharf

Canary Wharf was a thriving 19th-century port, famous as the place in which goods from the Canary Islands were unloaded. Widespread bomb damage during the Second World War and the move towards containerisation and large ships in the 1970s meant that employment in the docks declined dramatically, and closed in 1980. Around 150,000 jobs were lost in Docklands between 1967 and 1977.

Redevelopment began in 1981 with the formation of the London Docklands Development Corporation and the Docklands Enterprise Zone. The initial aim was to attract light industry to the area, in the manner that light industry had moved to West London areas such as Park Royal earlier in the century. However, the City of London's deregulatory "Big Bang" in 1986 led to a demand for a large open plan offices that were hard to find in the City of London. Following the example of Citibank's successful move from Wall Street to Manhattan's midtown, Credit Suisse First Boston and Morgan Stanley agreed to take space in a new tower block in Canary Wharf.

Construction was not straightforward. There was much local opposition. Many residents thought that they would not benefit from such a development, and the construction company, Olympia and York, went bankrupt in 1992 as part of the general property recession of the early 1990s.

But, ultimately, few can doubt that Canary Wharf, and Docklands as a whole, have been anything other than a success. Today the area has 33 office blocks, over 14 million sq ft of office space, and more than 90,000 people are employed there on any given day. It has allowed the massive expansion of London as a financial centre, raising average wages and producing significant amounts of tax revenue for the Government.

Two lessons stand out. First, it will always be easier to revitalise an area that adjoins a prosperous place with considerable potential for expansion. Second, although many people from the local area are now employed in the financial sector, it would be wrong to claim that prospects for those who lost their jobs in the docks have been transformed.

By the time the Conservatives left office in 1997, many policy approaches had been tried over the previous half century. Governments had tried using sticks to persuade firms to relocate. They had tried to use carrots, in the form of grants for capital or through the REP for employment. They had tried targeting large areas and small ones. They had tried working through local authorities and bypassing them altogether. Many of these policies had involved substantial levels of public expenditure, or tax revenues forgone. For example, Scott estimates that core urban policy funding in the early 1970s amounted to £3.4bn in today's money.[66]

Given the intellectual climate of the times these policies were perfectly reasonable. They represented the political and policymaking classes' best guess as to what would work. Where possible they were based on evidence, and there is evidence that policy changed as new ideas appeared and lessons were learned.

Of course, it was always possible to demonstrate that a particular firm had benefited from a particular grant, or that a programme had led to results that could be thought conducive to urban renewal. But what was clear by 1997 was that Britain was a significantly divided nation. Cities outside the South East were, almost uniformly, decidedly poorer than those located closer to London. The capital was manifestly the most economically successful part of the country, even though it also contained some sizeable pockets of poverty.

66. Scott P, 'British Regional Policy 1945-51: A Lost Opportunity', *Twentieth Century British History*, 8(3): 358-382, 1997, p. 350, uprated using Lawrence H. Officer, 'Five Ways to Compute the Relative Value of a UK Pound Amount, 1830 - 2005' *MeasuringWorth.Com*, 2006

4

Urban regeneration since 1997

A real commitment

The Labour Government elected in 1997 was genuinely committed to reviving depressed urban areas. Many of the new Cabinet's constituencies were in urban areas with significantly lower than average income levels (John Prescott in Hull, Jack Straw in Blackburn, Margaret Beckett in Derby, Donald Dewar in Glasgow, Mo Mowlem in Redcar, David Blunkett in Sheffield, Ron Davies in Caerphilly, Nick Brown in Newcastle, Clare Short in Birmingham, Ann Taylor in Dewsbury, Frank Dobson, Harriet Harman and Chris Smith in Inner London). This was a Cabinet that knew the reality of life in urban areas that were relatively poor, and it is poorer urban areas that provide the bedrock of Labour support: in 1997 David Blunkett won 73.5 per cent of the vote in Sheffield Brightside, receiving five times as many votes as the Liberal Democrat runner-up.

Tony Blair chose the Aylesbury Estate in Southwark as the site for his first speech as Prime Minister. It was a wide-ranging speech that included his aspirations for deprived urban areas: "We should engage the interest and commitment of the whole of the community to tackle the desperate need for urban regeneration," he said.[67] Not long afterwards the responsibility for urban policy was given to John Prescott, as part of his role as Secretary of State for the Department of the Environment, Transport and the Regions (DETR).

A new vision

One of John Prescott's first actions was to commission the acclaimed architect Lord Rogers of Riverside to chair the Urban Task Force. In 1999 it produced a powerful report, *Towards an Urban Renaissance*, which was widely welcomed by bodies as varied as Friends of the Earth,[68] the Civic Trust,[69] and the Local Government Association – the latter described it as "a landmark in the evolution of urban policy".[70] Anatol Lieven, writ-

Case Study 3: Lord Rogers and an Architect's policy

After the 1997 election, the Deputy Prime Minister John Prescott asked the award-winning architect Lord Rogers of Riverside, whose signature buildings include the Pompidou Centre in Paris and the Lloyds Building in London, to lead the Urban Task Force. It presented its findings in 1999 in *Towards an Urban Renaissance*, which has set the tone for the last eight years of urban policy. The document is very much the work of an architect, with a heavy emphasis on the built environment. The panel did not include any economists, nor do any appear to have been consulted. It has a strong emphasis on the urban core, the need for density and use of brownfield sites. It also argued that local people should be more heavily involved in creating a vision for their area. This is a document that those who like city centres will find appealing, but which suburbanites, for whom sprawl is a price worth paying for gardens and private space, will not.

67. Blair T, Aylesbury Estate, London Speech, 2nd June 1997

68. Kirby A, 'New life for the cities' *BBC*, 13th January 1999

69. Civic Trust Response, *Towards a Strong Urban Renaissance*

70. LGA Briefing, 29 June 1999 'Towards and Urban Renaissance' *www.lga.gov.uk*

ing in *Prospect* magazine, was perhaps the most fulsome, describing it as "one of the most intelligent and decent documents published by an official body in recent decades".[71]

Others were more sceptical, however. Professor Paul Cheshire remarked with some justification: "Architects and designers are not social scientists and have little or no analytical training in understanding how cities work."[72] Six years later in Lord Rogers' follow-up report, *Towards a Strong Urban Renaissance*, one of the members of the task force, Sir Peter Hall, argued against its original proposals for high-density development on brownfield sites, the substance of chapter 3. However well-intentioned, he felt that this would "deepen the well-documented housing crisis that faces us and our government".[73] On that point, at the very least, the critics have been proven right.

In 2000, the Government published the first formal White Paper on urban renewal for 23 years: *Our Towns and Cities: the Future – Delivering an Urban Renaissance* which was a clear response to the Rogers report. Although broadly favourable to its analysis, the Government did not implement the proposals en bloc, but instead selected some of the 106 recommendations to implement.[74]

Confusion, continuity and change

A result of this flowering of new ideas, only some of which have been taken up, is that urban policy since 1997 has been both conservative – almost all of the policies have clear historical precedents, as Figure 2 shows – and incoherent. One academic author was damning: "The urban policy White Paper may perhaps be best understood as a policy 'collage', drawing bits of social democratic rhetoric from parts of the New Labour policy vocabulary, pasted in alongside a physicalist urban design view of cities, an old set of ideas about containing urban sprawl, economic conceptions of the value of 'attractive cities', and specific sectoral policy agendas … It lacks not just a well-developed concept of urban dynamics, but shows little of the complex, overlapping, intersecting and conflicting social worlds of urban life."[75]

The sheer range of initiatives make the policies of this era appear deeply incoherent. The editors of one book admit: "As a consequence of the considerable changes in the nature, form, content and delivery of British urban policy that have taken place under New Labour, it has been very difficult for practitioners, academics and urban residents themselves to keep up with what has been happening."[76]

Such proliferation is not simply untidy, it also makes it difficult to assess their effectiveness. This has always been a concern to those who study policy outcomes: in 1989 the Audit Commission complained that the existence of 14 different policies meant that urban policy had become a "patchwork quilt".[77] By 2003 the regeneration minister, Lord Rooker, described its ever greater complexity as "a bowl of spaghetti";[78] the *Guardian* newspaper identified 46 different urban policy funding streams. Some, such as the New Deal for Communities and Single Regeneration Budget, were big programmes, whereas others, such as the Capital Modernisation Fund (Small Retailers) were very small indeed. Some projects had very general names, such as Fair Share, Positive Futures and Step Up while others were more specific, the Drug Action Teams and Youth Music Action Zones. Only a few years on it can be hard to remember the distinction between the Early Years Development and Childcare Partnerships and the Neighbourhood Nursery Centres, between the Crime Reduction Programme and the Safer Communities Initiative, between Spaces for Sport and the Arts and Sports Action Zones.[79] Nor was it the case that there were many programmes at national level, but only one in any given locality. As Figure 3 on page 28 shows, an area such as Liverpool could be the focus of a plethora of initiatives.

This chapter cannot possibly cover all of the "monumental complexity"[80] of pol-

71. Lieven A, 'Tale of Two Cities', *Prospect Magazine,* August 1999, no 44 www.prospect-magazine.co.uk/article_details.php?id=3868

72. Cheshire P. 'Resurgent Cities, Urban Myths and Policy Hubris: What we Need to Know', Urban Studies, 43 (8): 1231-1246, 2006

73. *Rogers et al, Towards a Strong Urban Renaissance*: An independent report by members of the Urban Task Force, p 19

74. BBC, 'Rogers: Put cities first', *BBC News*, 30th June 2000

75. Healey P, 'Towards a "Social Democratic" Policy Agenda for Cities', pp 159-171, in Johnstone, C and Whitehead, M (eds) *New Horizons in British Urban Policy: Perspectives on New Labour's urban renaissance*, pp 165-166 Ashgate, 2004

76. Johnstone C and Whitehead M, 'Horizons and Barriers in British Urban Policy', pp 3-24, in Johnstone C and Whitehead M (ed), *New Horizons in British Urban Policy: Perspectives on New Labour's Urban Renaissance*, p 4,Ashgate, 2004

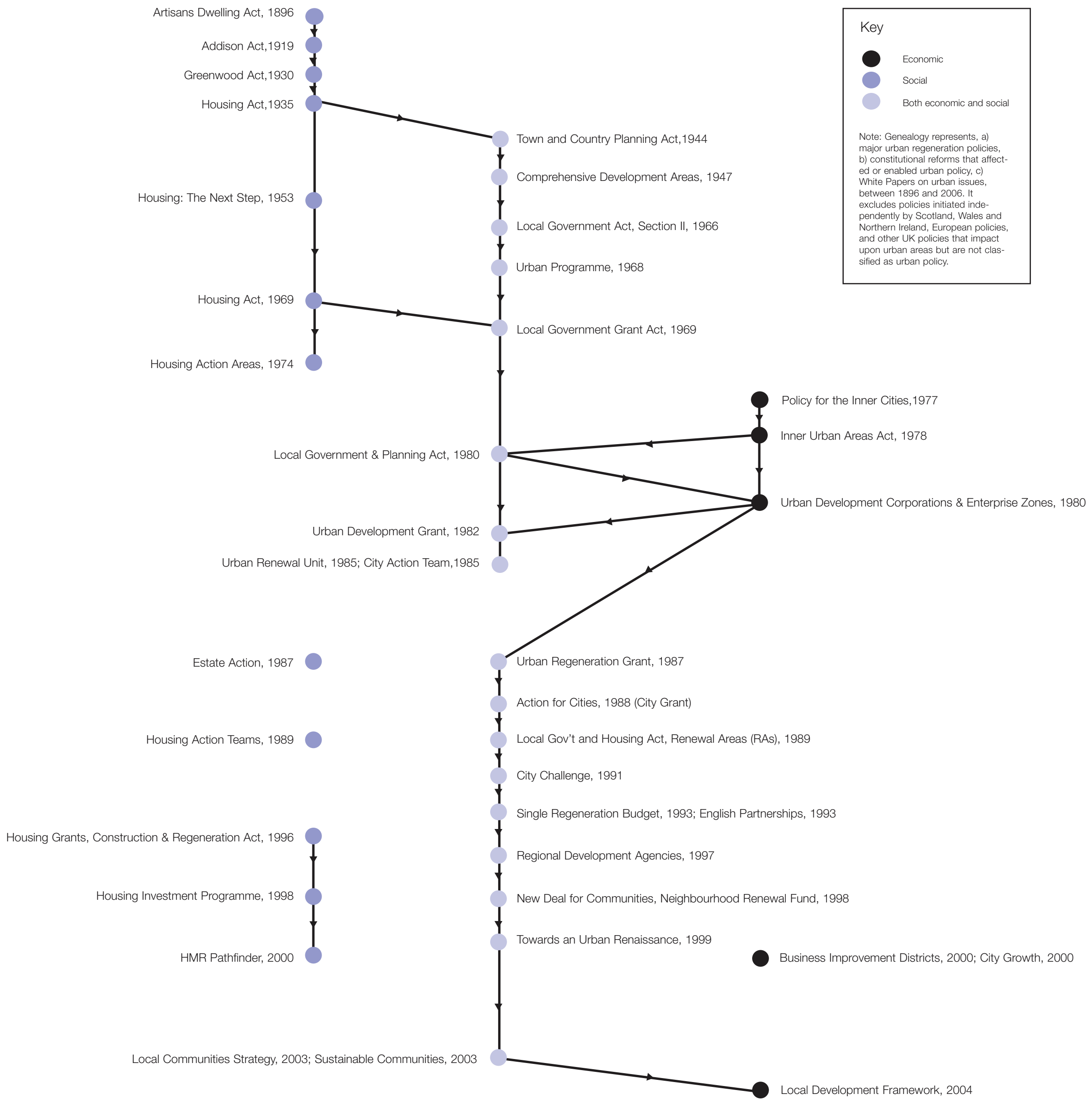
77. Ibid, p 5

78. Ibid, p 5

79. Ibid, p 6

80. Ibid, p 13

Figure 2: Urban Policy Genealogy



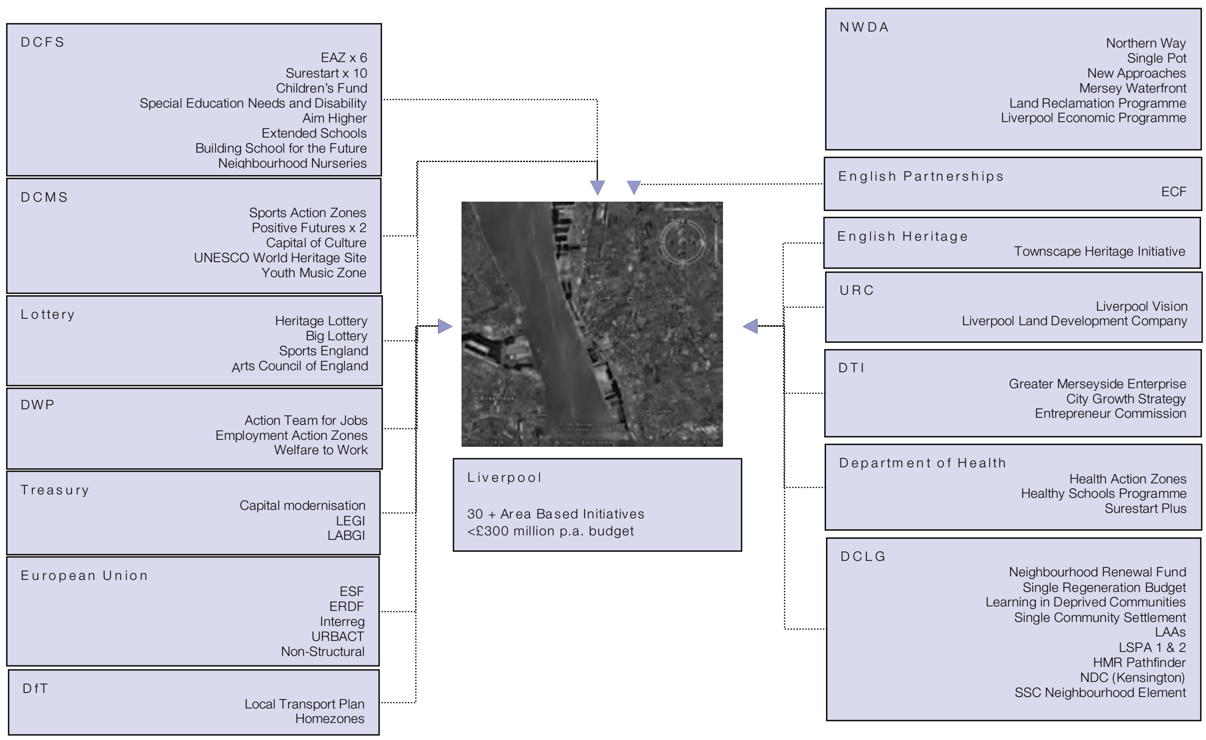
icy since 1997. Instead, as in chapter 3, we look in detail at two policies that are, in some sense, emblematic of the approaches that have been tried since 1997.

An emphasis on the poorest neighbourhoods

A distinctive aspect of post-1997 policy has been an emphasis not on the region or even the city, but on pockets of deprivation within particular towns and cities. This arose from a Social Exclusion Unit report, *Bringing Britain Together: a national strategy for neighbourhood renewal*,[81] which argued that urban policy had failed to affect the lives of the poorest areas in the towns it targeted. If anything, the concentration of poverty had increased over time, with growing polarisation, particu-

81. Social Exclusion Unit, *Bringing Britain Together: a national strategy for neighbourhood renewal*, Stationery Office, 1998

Figure 3: Urban Regeneration Funding Streams in Liverpool[82]



larly in the social housing sector.[83] (It is not clear whether such concentrations are harmful either to the poor or to society more generally, or whether they are simply the spatial manifestation of any given level of economy-wide inequality in an urban setting. Cheshire and Sheppard and Hills provide contrasting approaches and conclusions to this question.)[84] The primary means through which the Government tried to target resources at very local levels was the New Deal for Communities (NDC). Launched by both the Prime Minister and the deputy Prime Minister, at the Holly Street Estate in Hackney in 1998, it was an attempt to make real the promise Tony Blair had made the previous year on the Aylesbury Estate.[85]

The NDC thus represented an extreme case of so-called area-based initiatives and of "worst-first", that is, trying to boost the worst areas, rather than improving the somewhat better ones in the hope or expectation that the benefits would spillover to all. The programme covered a total of 39 places, with funding averaging about £5 million a year for ten years.[86] The average area covered by a NDC was around 10,000 people.[87]

The efficacy of area-based initiatives had already been questioned, both in the Department for the Environment's 1994 report, *Assessing the Impact of Urban Policy* and by academic researchers, such as Shaw and Robinson.[88] But NDCs were to be different in a number of ways. First, the local council was neither to be given overall responsibility, nor to be bypassed. Instead it was to be one of many groups who were to work together. Most innovatively, the bodies in

82. Adapted from Webber C and Marshall A, 'Bridging the Gap: Delivering infrastructure investment in Britain's cities', *Journal of Urban Regeneration and Renewal*, 1(1): 7-21, 2007, p 10

83. Hills J, *Ends and Means: The future roles of social housing in England*, CASEreport 34, 2007

84. Cheshire P and Sheppard S, 'The Introduction of Price Signals into Land Use Planning Decision-making: a proposal', Urban Studies 42 (4), 647-663, 2005

85. Johnstone C and Whitehead M, 'Horizons and Barriers in British Urban Policy', pp 3-24, in Johnstone C and Whitehead M (ed), *New Horizons in British Urban Policy: Perspectives on New Labour's Urban Renaissance*, p 3 Ashgate, 2004

86. Lawless P, 'Area-based Urban Interventions: rationale and outcomes: The NDC Programme in England', *Urban Studies*, 43(11):1991-2001, 2006

charge of NDC money included direct representatives of the community itself. Indeed, on 24 of the 39 NDCs local residents made up a majority of the board.[89] This, the DETR argued, was vital to making the NDC work better than previous area-based initiatives: "The very local focus will allow communities to identify closely with the programme and be actively involved."[90] NDCs, it was envisaged would galvanise other, wider area programmes, which would adapt their delivery in NDC areas in line with local preferences. This however can produce conflict when the wider programme has to meet national targets that are different to those favoured by the local community. Over time the emphasis on local decision making seems to have declined, with local boards being relegated to organisations responsible for delivery.

Evidence for this transition can be seen on the Aylesbury Estate, scene of Blair's original speech, and one of the first NDC areas. Local residents rejected initial plans to demolish and rebuild much of the estate because this involved transferring the estate to a housing association. Despite that, the sell-off is going ahead; the council states that all other options are too expensive. The estate, already fairly dense at 97 houses per hectare, will be rebuilt at 172 houses per hectare. The additional houses will be private, and their construction will refinance the rebuilding. It is possible that the new, more diverse estate will be well-integrated, and economically and socially successful. But it is equally possible that the current community will remain as poor as ever, only now will be more cramped. One thing that is clear, however, is that when the national expert views clashed with those of local people, the national view prevailed. The localism of NDCs was very limited.

More generally, it is hard to assess whether the NDC has been effective. As we will argue in the next chapter, there may be better ways of approaching the question of efficacy than by looking in detail at individual programmes. Evaluations of NDC programmes suffer from two main flaws. First, the baseline data for areas as small as these are often non-existent. As Cheshire notes more generally: "The basic research has not been done and the Government has not funded it."[91] On the good side, people living in NDC areas are more likely to tell surveys that their area has improved. Against that, they still don't like their areas much, and the objective data paints a bleak picture. When we compare people's attitudes in 2002 and 2004, we find a 6 per cent drop in the number of people living in NDCs who felt unsafe after dark, but that still left 49 per cent feeling unsafe after dark. Similarly, 10 per cent less were worried about being mugged, but 48 per cent still worried about it. Clearly, an area in which half the population worries about burglary, mugging, car crime and so on still needs much improvement.[92]

> "If anything, the concentration of poverty had increased over time, with growing polarisation, particularly in the social housing sector"

New approaches to development

When the Government persuaded Rootes to open a plant at Linwood, the regeneration model was clear. Linwood would produce cars that would be sold throughout Britain and perhaps more widely. As a result money would flow from outside Britain as a whole to Linwood, and Linwood would become richer. There would then be multiplier effects as the people of Linwood spent some of their new wages locally. If we apply that manufacturing model to the service industries of

87. Ibid

88. Shaw K and Robinson F, 'Learning from experience: reflections on two decades of British urban policy', *Town Planning Review*, 69(1), 1998

89. Lawless, P, 'Area-based Urban Interventions: rationale and outcomes: The NDC Programme in England', *Urban Studies*, 43(11):1991-2001, 2006

90. Department for the Environment, Transport and the Regions, *Guidance on Area-Based Initiatives*, p 5 June 1998

91. Cheshire P, 'Resurgent Cities, Urban Myths and Policy Hubris: What we need to know', *Urban Studies*, 43(8): 1231-1246, 2006

92. Lawless, P, Area-based Urban Interventions: rationale and outcomes: The NDC Programme in England', *Urban Studies*, 43(11):1991-2001, 2006, Table 1

today, it becomes apparent that for services to lead to regeneration they must bring in new money to the area. If a new shop opens and sells only to local people, all it is doing, in effect, is replacing an existing shop. In contrast, if that shop becomes a destination for people from more affluent areas outside the town, then new money can enter the town. We can see instantly why services can be a difficult basis for regeneration: although people are happy to purchase a car built hundreds or thousands of miles away, we often prefer to consume services locally. There are exceptions: services that are embodied in manufactured products – such as the design of a car, for example. Equally, there are some services that can be located anywhere, such as call centres and help lines.

There are two other ways in which services can revitalise an area. First, providing a missing service can stop money flowing out of the local community. For example, the first shop on an estate can keep the shop wages on the estate, if it employs local staff. This can be useful for micro-regeneration, but is unlikely to be material at the level of the town as a whole. Secondly, attracting high end service sector firms can lead to an influx of more skilled, higher paid residents. This can have knock-on effects for people already living there, although those effects can be ambiguous. On the one hand, more money in the area can create jobs locally, as the new arrivals purchase services locally. On the other, the new arrivals can outbid existing residents for some services, notably housing, a common experience in gentrifying areas of London.

Cultural services are often identified as having the potential for regeneration. Fifty-six places in England now have formal "cultural quarters" as part of their regeneration efforts. This started with Sheffield, Leamington Spa and Southwark in the nineties, since when the number has steadily increased. Such quar-

Case Study 4: The West End of Newcastle upon Tyne

Newcastle's West End has seen many attempts at regeneration. Some of its low quality Victorian housing was cleared and replaced by council estates in the 1960s and 1970s. A combination of few local jobs, very low skill levels and incomes and poor public transport means that there is a sense in which the West End is in a world of its own. Forty-four per cent of the population have no qualifications, 61 per cent of households have no access to a car and unemployment is two thirds higher than the Newcastle average. When the Government announced £73 million for the Newcastle and Gateshead Housing Market Renewal Pathfinder – whose prime focus is the West End, Professor Fred Robinson wrote: "So, here we go again. Another new regeneration programme, the latest in a long line of policy initiatives, is to be targeted on the West End of Newcastle."[93]

Its problems are certainly not the result of the absence of urban policy. The area was the recipient of Urban Aid in the 1960s, Estate Action and Inner City Partnerships in the 1970s, City Challenge and Enterprise Zones in the 1980s, the Single Regeneration Budget in the 1990s, and New Deal for Communities and Housing Market Renewal Pathfinder funding in the 2000s. The New Deal for Communities alone is expected to spend £55 million.[94]

Many of those who could leave have left: the population has fallen by a third in 20 years. In the words of one West End resident: "There's been no regeneration, just lots of demolition and people moving out." We can argue over whether urban policy has been a failure or merely insufficient, but no one could claim it as a success. [95]

93. Robinson F, 'Regenerating the West End of Newcastle: What Went Wrong?' *Northern Economic Review*, 36, 15-41, Summer 2005, p. 15

94. *http://www.newcastlendc.com/page/glossary.cfm*

95. Robinson F, op cit, p.34

ters vary tremendously – St Helens is based around a small transport museum, although there are also ambitions for a garden on the scale of Kew or the Eden Project.[96] Leicester's cultural quarter is based around a performing arts centre,[97] while Middlesbrough Quarter offers all forms of dancing – including Morris dancing.[98]

There are good reasons to be sceptical of the long-term benefits of regeneration through cultural centres. There is no doubt that they improve the aesthetics of an area. Many, such as Leicester, involve the employment of big name architects to design remarkable buildings. Others, such as St Helens, involve giving significant sums of public money to property owners to redevelop buildings. In Sheffield, the National Centre for Popular Music was originally planned to cost no more than £6 million, and was expected to attract 400,000 visitors a year. When it opened David Blunkett, the local MP, said: "The recruitment programme offers hope to unemployed people and new opportunities for Sheffield."[99] In fact the building cost £15 million and attracted only 65,000 paying visitors in the first six months. It became a nightclub, and was later sold for £1.5 million to Sheffield Hallam University for use as a student union. Creditors lost 90 pence in the pound. In the words of one academic commentator: "The centre was an unmitigated disaster."[100]

Two lessons stand out. First, the initial predictions were little more than wishful thinking. Worse, there were incentives for wishful thinking: as one director noted "I believed that there were incentives to inflate the [likely visitor] number to get the money."[101] This is a particular danger when people are not spending their own money and do not have to bear the costs of mistakes. Although some cultural ventures are successful, it is not easy to predict which will be successful. Even apparently similar venues can fare very differently: witness the success of the Eden Project and the failure of National Garden of Wales in its original incarnation. Secondly, the cost of regeneration through culture can be extremely

Case Study 5: Lace Market, Nottingham – successful cultural quarter

Nottingham's lace market district was the centre of the world's lace-making industry in Britain's industrial heyday. It has left a remarkably useful legacy: the highest concentration of listed industrial buildings in England – tall Victorian warehouses and factories built of brick facing on to narrow streets. Unlike some larger factories, these buildings are relatively easy to convert into highly desirable flats as they have large rectangular windows originally designed to let in the maximum amount of light for intricate weaving work.

The physical characteristics of the area were always well-suited to artisan production, and Nottingham Council has developed the lace market district into such an area. It contains 450 firms, more than half focused on fashion design and production, and more than three-quarters being either cultural or consumer businesses. The presence of a large university brings in lots of students, adding to the sense that this is a young and dynamic area, with many bars and cafes.

The regeneration began with both private and public funds, including grants from the European Regional Development Fund, English Partnerships, Urban Development Grants and the Heritage Lottery Fund.

Two factors essential to its success were that the redevelopment process was started locally, as Nottingham's vision for Nottingham and that the area offered an intrinsically strong basis for development.

96. St Helens Council, 'St Helens First', *St Helens Community Magazine: Budget Special,* Winter 2003

97. FOCUS, *Culture Leading the Way in Leicester's Regeneration,* [16/08/07]

98. *www.middlesbroughquarter.co.uk/*

99. Kam, J 'Success in Failure: The National Centre for Popular Music', *Prometheus*, Vol 22 No 2, June 2004

100. Ibid

101 Ibid

high. Blunkett hoped that the National Centre for Popular Music would offer jobs to the unemployed in Sheffield. But even at its peak it employed only 79 people – which, with a £15 million cost, means that each job cost £190,000. Today the Leicester Performing Arts centre states that it is aiming to create 134 jobs – with a project cost of £50 million, this would be £373,000 a job.[102]

Culture, in short, is no sure-fire route to regeneration. If it is to be successful it needs to attract visitors from considerable distances, on a regular basis. It is far from clear that St Helens transport museum, or Leicester's performing arts centre will achieve that. The same could be said for many of the other cultural quarters that have been created, or are proposed. Even if they do not go into liquidation, as the Sheffield centre did, the cost per job appears to be very high. If, in fact, they are old-style physical regeneration projects then they should be judged as such, using standard value-for-money criteria.

102. www.leicesterpac.co.uk

5

Evaluating urban policy

Methodology

There are, broadly speaking, two ways to evaluate urban policy: micro and macro. The micro approach investigates each policy in some detail. It starts by looking at the aims and objectives of the policy and judges its success against those criteria. Government favours the micro method since it usually wants to evaluate the success of a specific policy, rather than the policy approach as a whole. It is the approach taken by the Department of Communities and Local Government (DCLG), the Office of the Deputy Prime Minster (ODPM), the National Audit Office (NAO) and the Department of Environment, Transport and the Regions (DETR) in the past.[103] It is also the approach used by many academic studies undertaking similar analysis, such as Ball and Maginn,[104] Rhodes et al,[105] and Lawless.[106]

Such analysis usually starts by looking at the outputs of the programme. One that pledges to decontaminate 20 hectares of land and build a business park on it will be judged by whether it decontaminates 20 hectares of land and builds a business park on it. That is right and proper, not least because it is essential in ensuring that agencies and organisations are neither corrupt nor incompetent. Despite the case of John Poulson and more recent events in Doncaster, British urban regeneration policy is not characterised by corruption or incompetence on the ground.[107] The overwhelming majority of the money is spent as it should be, and achieves – in output terms – broadly what it says it will achieve.[108] Those who are implementing the policy are capable and do a fine job.

We do not seek to repeat those evaluations here. Given the number of urban regeneration programmes that have existed, in a wide range of places and contexts, such a project would take a lifetime. Nor do we seek to review the strengths and weakness of the evaluations. Such work will always contain assumptions that could legitimately be questioned, but these evaluations have been professionally carried out to high standards.

Our aim is broader. We do not seek to learn whether programme A worked better in place X or Y in 2001, or whether programme B was more effective than programme C in place Z in 2002-4. Instead we want to ask the big question: what has happened to places that have had significant levels of urban policy intervention in the past ten years?

We do so for two reasons. First, the biggest difficulty in studies of specific programmes is what is termed "additionality". It is usually easy to show that the programme has achieved certain things: a road has been built, some training undertaken, a new business assisted.[109] But the real question is what would have happened without the programme. Maybe the road builders would have sat at home twiddling their thumbs, with their building equipment standing idle. Maybe the person who was trained would have sat in the park, doing nothing. Maybe that new business would have failed and the entrepreneur left unemployed. If so, the benefits of the programme have been correctly assessed. But of course it is likely that at least some of the road building equipment would have been

103. Comptroller and Auditor General 'An Early Progress Report on the New Deal for Communities Programme: English Regions', London: Stationery Office, 2004; Office of the Deputy Prime Minister 'Turning Areas Around – The Impact of SRB on Final Outcomes', *Urban Research Summary*, 2002; Department for the Environment, Transport and the Regions, *City Challenge - final national evaluation*, 2000; National Audit Office, *The Achievements of the Second and Third Generation Urban Development Corporations*, 1993b; Office of the Deputy Prime Minister, *Evaluation of the National Strategy for Neighbourhood Renewal*, 2005

104. Ball M and Maginn P, 'The Contradictions of Urban Policy: the case of the SRB in London', *Environment and Planning C: Government & Policy*, 22: 739-65, 2004

105. Rhodes, J et al, 'Lessons and Evaluation Evidence from Ten Single Regeneration Budget Case Studies'', DETR Annex, 2002

106. Lawless P, Area-based Urban Interventions: rationale and outcomes: The NDC Programme in England', *Urban Studies*, 43(11):1991-2001, 2006

107. Fitzwalter, R and Taylor, D, Web of Corruption: *The full story of John Poulson and T. Dan Smith*, Granada, London 1981; Wainwright M, 'Donnygate scandal ends in jail terms', *Guardian*, 13 March 2002

108. Office of the Deputy Prime *Minister, Assessing the Impacts of Spatial Interventions*, 2004; National Audit Office, *Regenerating the Inner Cities*, 1993a

109. For more on this see the Parable of the Broken Window by Frédéric Bastiat and his general theory put forward in *Ce qu'on voit et ce qu'on ne voit pas*,1850, *http://bastiat.org/en/twisatwins.html*

used to build other roads in the area or elsewhere. The person who was trained might have been trained anyway or, even without training, may well have been in work. The business that was successful may have been successful without the advice of the urban regeneration agency, or, conversely, its (subsidised) success may have been at the expense of another (equally good) local firm. The programme's real effect is the amount that is additional, that is, the total amount that has been achieved, less that which would have been achieved anyhow, and less any negative side-effects (and, for that matter, plus any positive side-effects). Good evaluations try to include measures of deadweight (what would have happened anyhow) and displacement (other firms losing out to subsidised competitors), as well as looking for side-effects, positive and negative. But all of these are very difficult to do and, however well done, the resulting numbers have wide margins of error. A top-down study can help to get around this to some extent, by looking at the town as a whole. Thus, rather than looking at the number of new firms helped by urban regeneration projects, we looked at the number of new firms created in the town over time. If the urban regeneration project helps many firms, but those firms would have been created anyway, then our measure will show no change: new firm creation has been unaffected, and our results are a better measure by which to evaluate the policy.

> “We want to know whether places that gain significant amounts of regeneration funding go on to sparkle with success”

There is, however, a second, more important reason why our approach is the most useful in the context of what we are trying to do. We are not ultimately aiming to say that policy A is better than policy B, but rather to ask whether policies A and B together are effective. We want to know whether places that gain significant amounts of regeneration funding go on to sparkle with success. The only way to do that is to look at the towns and cities concerned, and not at the individual programmes.

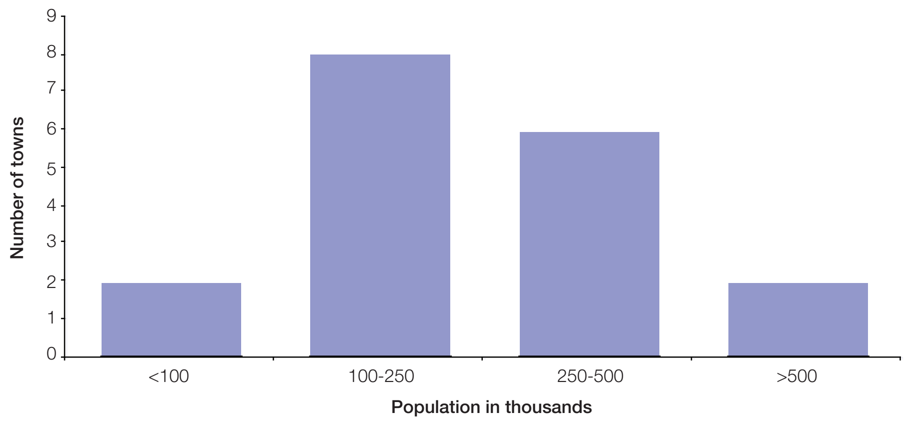
Even then, evaluation is not straightforward. It is sometimes easier to walk around a city and sense whether it is doing well. Is it the sort of place that we would be happy to live in, to see our children grow up in? We recognise success when we see it, but it is not always straightforward to encapsulate in a series of numbers, a table or a graph. Nevertheless, we can point to urban areas that are successful: Windsor or Edinburgh, for example. We know that these towns enjoy successful local economies and all that this implies. We can confidently predict that they will have higher than average disposable incomes, and the associated benefits, such as longer life expectancy, higher employment rates and higher school standards. We also expect them to have lower rates of poverty, fewer people out of work and fewer people leaving school with no qualifications than elsewhere. And, of course, such areas will rarely have urban regeneration programmes because they do not need them.

Sample

In order to proceed with a top-down analysis we need to construct a sample of towns and cities that have received significant levels of urban policy intervention. The sample should be broad enough that the results cannot be swayed through exogenous shocks, such as the closing of a military base or the coming of the Olympics. The failure of the former area or the success of the latter would not be sufficient to show the failure or success of urban policy more broadly: these are rare events, and policy needs to be determined by the broader experience.

There is no “correct“ way to construct such a sample, but rather lots of reasonable

Figure 4: City Distribution by Population, 2007



ways to do so. We constructed a sample of 18 urban areas that is balanced in a number of ways. First, it covers a wide geographical range, from Glasgow in the North to Southampton in the South, from Merthyr Tydfil in the West to Hull in the East. This reduces the chance that our results are biased because of the changing economic geography of Britain – although the interaction of geography and urban policy is something we will return to later. Our sample contains places of different sizes, from towns with under 100,000 people (Merthyr Tydfil and Hastings), through medium-size places (Stoke and Wolverhampton), each with around a quarter of a million, to larger cities of over half a million (Sheffield and Glasgow).

But what is most important about our sample is not that it is geographically representative or in terms of the size distribution, vital though these characteristics are, but that it is a sample of towns and cities that have received significant assistance from urban regeneration programmes. We can easily imagine that former textile towns such as Blackburn, former coal mining areas like Merthyr Tydfil, or the big transcontinental ports of Liverpool and Hull have received significant levels of funding over the years. Table 2 demonstrates that it is the case. We identified eight key funding streams for urban renewal over the past decade, and asked the simple question: did the town or city benefit from that funding stream? As Table 2 makes clear the towns in our sample did indeed benefit from significant levels of funding: the average score is 6.4 per cent out of a possible 8 per cent, that is, on average our sample of towns benefited from 80 per cent of the urban policy funding mechanisms listed in the table. Two, Wigan and Sunderland, received support under all eight funding streams.

In addition to assembling a sample, we needed to decide the criteria against which to judge the success that urban policy has had in revitalising these towns. That conditions improve over time is not sufficient to deem policy successful: when the economy as a whole is growing, we would expect all towns and cities to see an improvement in conditions over time. We argue that evidence showing that these towns and cities were closing the gap between their own and national average gross value added (GVA) scores would be good evidence of success. It is unrealistic to expect full convergence: there will be persistence in performance over time, not least because skill

Table 2: Urban Regeneration Policy: 1994-2007[110]

	Single Regeneration Budget	English Partnership	City Challenge	Coalfield Areas Fund / Coalfield Enterprise Fund	New Deal for Communities	Neighbourhood Renewal Fund	ERDF / ESF URBAN	Safer, Stronger Communities Fund	Score (0-8)
Sheffield	✓	✓			✓	✓	✓	✓	6
Liverpool	✓	✓	✓		✓	✓	✓	✓	7
Blackburn	✓	✓	✓		✓	✓	✓	✓	6
Hull	✓	✓			✓	✓	✓		5
Wigan	✓	✓	✓	✓	✓	✓	✓	✓	8
Southampton	✓				✓	✓	✓	✓	5
Coventry	✓	✓		✓	✓	✓	✓	✓	7
Sunderland	✓	✓	✓	✓	✓	✓	✓	✓	8
Bradford	✓	✓	✓		✓	✓	✓	✓	7
Stoke	✓	✓		✓	✓	✓	✓	✓	7
Leicester	✓	✓	✓		✓	✓	✓	✓	7
Hastings	✓	✓			✓	✓	✓	✓	6
Blackpool	✓	✓			✓	✓	✓	✓	6
Stockton-on-Tees	✓	✓	✓			✓	✓	✓	6
Warrington	✓			✓			✓	✓	4
Walsall	✓	✓	✓		✓	✓	✓	✓	7

formation (whether through schooling or through migration) and company locations are both slow processes. But were we to find that our areas started off 10 per cent behind, and end up 10 per cent behind, we would begin to question more strongly the success and therefore the role of urban policy.

As well as looking at our sample of urban policy towns and the national average, we also include a small sample of successful towns, Edinburgh, Windsor-Maidenhead, Peterborough, Bristol, Milton Keynes and Swindon. These are towns we would expect to rank above average on most measures of success. Clearly, not all towns can be above average, but we can look to see whether Britain as a whole, and/or our sample of urban policy towns, appear to be converging to these success stories. Although affluent, these towns are not extreme examples of success: we have not included the City of London, or Chelsea, or similar areas. Instead we have picked more typical places. We include these towns in order to get some sense of the dynamics of the modern economy. A finding that these places are getting further ahead of the UK average would offer support for the locational theories of city rise and decline. It would suggest that these places have something special that is missing not only in places that are struggling, but in the UK more generally. If even the average is not catching up with the best, we would have to wonder whether policy can

110. Data for Merthyr Tydfil and Glasgow are not available on a comparable basis as funding mechanisms are different in the Scotland and Wales

make the struggling catch up with the best. Were we to find that the average does close the gap on the best it becomes more likely that places can learn from each other sufficiently to make urban policy an effective tool of regeneration.

Measures & findings

The core measures of success or failure must be concerned with income. First, income is an important measure in and of itself. Secondly, it is reasonably well-correlated with many other important aspects of the standard of living, including school standards and mortality. Thirdly, income is one of the key variables used to assess eligibility for urban regeneration funding: if your area's income remains low, you will end up receiving permanent regeneration funding. In such a case regeneration would have failed: like all aid programmes, the best result is for the regeneration funds to cease to be needed.

There are many ways in which a town's average income can increase, and not all are equally valuable in terms of judging whether it is "on the up". For example, average income will rise in a town with high unemployment if the government raises unemployment benefits or if more people find work. Clearly the latter is a much more desirable outcome if we are trying to assess the degree to which the town is improving its situation. Equally, those in low-paid work become richer if in-work benefits, such as tax credits, are increased or if they get promoted. But again, the latter could be seen as evidence of regeneration, the former cannot.

Gross Value Added

For these reasons the best measure of regeneration is gross value added (GVA) per head, which measures the contribution that people are making to the economy.[111] It captures both private and public sector work, but does not include transfer payments, such as pensions or tax credits. A high level of GVA is the best basis for economically sustainable prosperity: it means

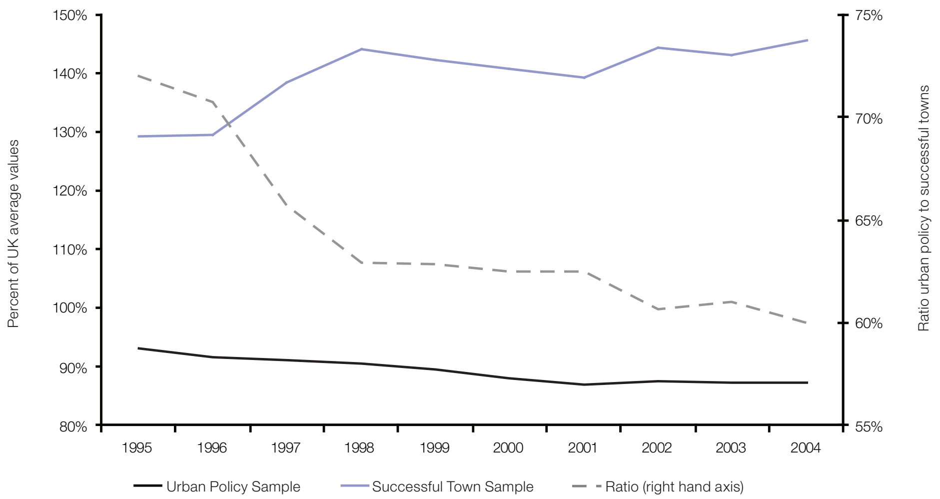
Figure 5: Geographical location of sample set

111. Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry, sector or area in the UK. The GVA generated by any area or unit engaged in production activity can be calculated as the residual of the unit's total output less intermediate consumption (that is, good and services used up in the process of producing the output), or as the sum of the factor incomes generated by the production process. GVA plus taxes on products less subsidies on products equals GDP. In spatial terms, GVA is calculated by workplace, which can underestimate the economic returns of areas characterised as commuter belts. GVA per head is total area GVA divided by total area population at particular time. http://www.statistics.gov.uk/cci/nugget.asp?id=254

that people are doing jobs for which there is high demand and for which they are qualified. GVA is not a perfect measure, however, and we highlight two potential issues. The first is that GVA is allocated by place of work and not by place of residence. Thus it measures the value for workers in the town, rather than for the residents of the town. This is pertinent for areas with significant levels of commuting. It would be wrong to condemn an area with a low GVA but from which people can and do commute to well-paid jobs nearby. Equally we would need to question the success of a place with a high GVA if large numbers of commuters are masking high levels of local unemployment. Second, it is very hard to calculate GVA for internal transactions within large multi-location firms. If Toyota produces the engines for its cars in Deeside and assembles the car bodies in Burnaston, it is not straightforward to decide how much of the car's final value has been added in each place – or, for that matter, in the place where Toyota designed the car, the place where Toyota administers back-office functions, and so on. Although statisticians have developed methods to correct for this – which also apply at national and international level – none are perfect. We have taken two steps to avoid the problem. First, we look at a sample of many places rather than just at one, since difficulties arising in individual places are more likely to cancel each other out as the sample size increases. Secondly, we looked not only at GVA, but also at other entirely independent measures, to see if they presented a similar picture across Britain and over time.

Examining GVA over time, we can see that far from converging to the UK average, our urban policy sample diverged from the national average. In 1997 the urban policy group were on average 9 per cent behind, by 2004 the gap had increased to 13 per cent. The ratio fell steadily from 1995 to 2001, before stabilising at between 83-84 per cent of the national figure. In contrast the successful towns increased their lead. Already 39 per cent above the national average in 1997, they were 46 per cent ahead by 2004. The gap between the two samples had widened, with the urban policy group slipping from 66 per cent of the successful towns' average in 1997 to 60 per cent by 2004. Urban policy does not appear to be delivering economically vibrant areas with the standards of living available elsewhere.

Figure 6: GVA relative change against UK average between 1995 and 2004[112]



112. Data for Stockton includes Hartlepool, Warrington includes Halton, and Blackburn includes Darwen, source: ONS

Personal Incomes

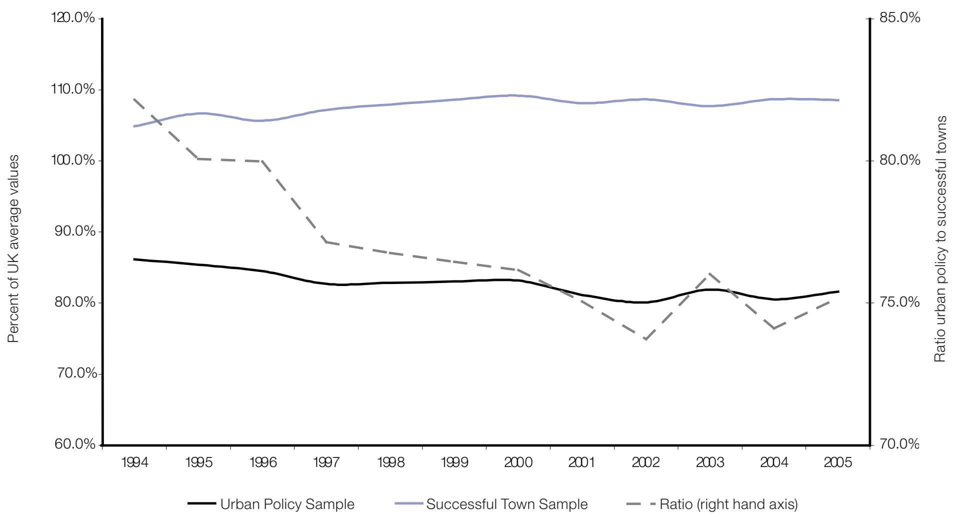
Since measuring GVA by local area is fraught with difficulty and since the figures for any one place are prone to error, it is important to compare these findings with evidence from similar, but independent sources. The most obvious source is the series on personal incomes constructed from HM Revenue and Customs data. Unlike GVA, this is based on residence, not place of work. A town that is home to significant numbers of commuters will do better on this measure than on GVA. Again, the series is not perfect: it captures only the income of those who pay tax, so that if those with lower paid jobs become unemployed they drop out of the calculation and the area appears to become richer. In addition, the statistics are based on a sample of taxpayers, rather than all taxpayers. These drawbacks can be reduced by looking not at individual places, but at the average of our sample.

Figure 7 shows a fairly similar although not as pronounced a pattern as Figure 6. Our urban policy sample began 17 per cent behind the UK average in 1997 and ended 18 per cent behind in 2005: it slipped slightly backwards until 2001, since when there has been no material change. Conversely our successful town sample started off 7 per cent ahead and ended up 9 per cent ahead. In 1997 taxpayers in the successful towns were just under 30 per cent richer than those in the group warranting urban policy interventions, by 2005 they had become 33 per cent better off, a small but noticeable increase in inequality.

Unemployment

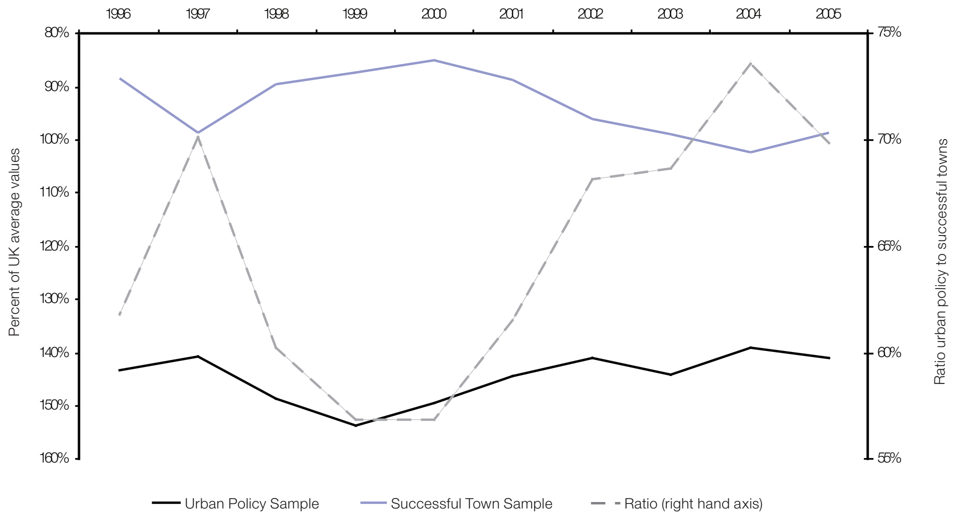
The obvious complement to these Inland Revenue derived statistics would be a series on those too poor to pay tax. After all, for those in work two areas could have the same average incomes, but if one area had a lower proportion of people in work it would be less successful. Therefore we also looked at unemployment. High unemployment is clear and unambiguous evidence of an unsuccessful local economy, since there is no reason to believe that the people in any one town are more or less "work-shy" than those in another. Further, high unemployment often understates the true level of the problem; we find what are termed "discouraged" workers in places where jobs are scarce. These are people who are not looking for work, although they are capable of it, because they perceive that work is hard to come by in their area.

Figure 7: Personal income change relative to UK average, 1994 to 2005[113]



113. Inland Revenue did not collect data for 1998 or 1999. Data availability means that Merthyr Tydfil is included only from 2000, Swindon only from 1997, source: HMRC

Figure 8: Unemployment rates relative to UK average, 1996 to 2005[114]



The successful British film *The Full Monty* told the story of a group of men, some with considerable entrepreneurial spirit, who were unable to find reasonable regular jobs after the local steel works closed. We should accept that at least some discouraged workers have made the rational choice: job hunting in their area, at their age and skill level, is not a worthwhile way to spend their time.

Figure 8 shows a more complex pattern than our earlier indicators. First, the principal axis is reversed, that is, a fall in unemployment leads the line to rise. This is a standard device and makes the graph comparable with earlier ones: rising lines are good news. When we look at the graph, we see that unemployment in the urban policy areas became significantly worse between 1997 and 1999, before improving steadily until 2005, at which point it was only the smallest fraction below its initial level. Conversely, our sample of successful towns saw unemployment rise relative to the national average from 1997 to 2000, then improving to 2005, at which point it was only the smallest fraction above its initial level. As a result of these swings, the ratio of unemployment in the two samples has changed fairly dramatically over the past ten years. Unemployment in the urban policy sample exceeded that in the successful town sample by between 36 per cent and 76 per cent, and ended up back where it was in 1997.

Overall, there has been no improvement in unemployment levels in our urban policy sample since 1997, relative either to the national average or to the sample of successful towns. Secondly, the successful towns do not have markedly better unemployment rates than the national average. This tells us that Britain does not have an economy-wide unemployment problem, but rather quite marked pockets of unemployment in some big cities, a conclusion reinforced by looking at the actual unemployment rates. Nationally, unemployment fell from 7.1 per cent to 4.6 per cent in Labour's first term, after which it has remained essentially unaltered. A similar pattern is true for both the urban policy sample, where unemployment fell from 10.2 per cent to 6.6 per cent in 2001 but only to 6.2 per cent since, and in the successful areas, where unemployment fell from 6.3 per cent to 4.1 per cent, before remaining broadly level. In each case, therefore, unemployment appears to have fallen to some "equilibrium" level, at which point it has effectively remained constant. Unfortunately the equilibrium level

114. Source: ONS, model based estimates

appears to be almost 50 per cent higher in our urban policy sample than elsewhere.

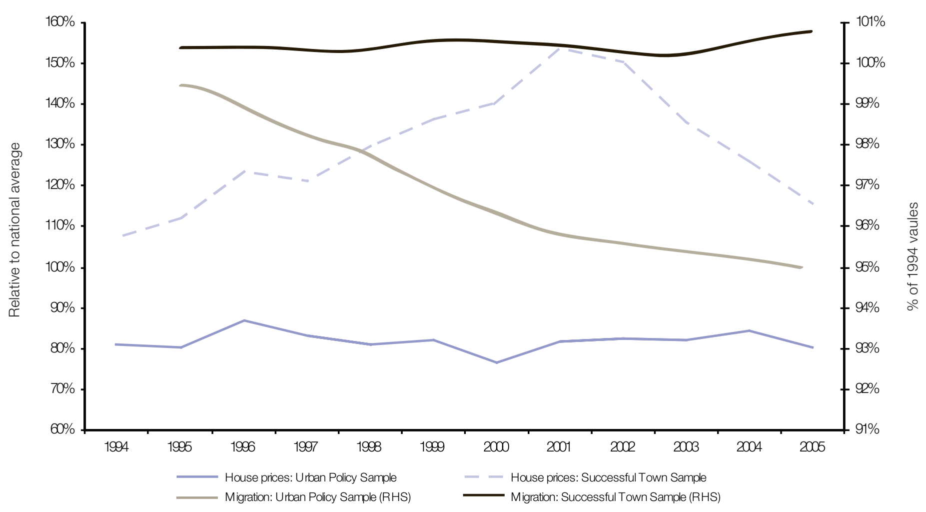
We have, then, three measures by which to judge the outcomes of urban policy: gross value added, personal incomes and unemployment levels. Although there are differences in emphasis between the three, the big picture is the same whichever measure we use: the urban policy towns are not converging to the UK average, if anything they are slipping farther behind; the towns that are ahead remain ahead, and if anything are widening their lead. Divergence appears here to stay.

Where do people want to live?

So far we have a gloomy picture. Of course, statistics such as these can never capture the whole situation, and we need to ask whether people's choices as to where to live are consistent with the picture that we are painting. Do people want to move to these cities or do they want to leave them? In many countries (and in 19th-century Britain) we could answer this question by looking at migration statistics. But migration is very limited in Britain today. Social housing is based primarily on local waiting lists, making it very hard for social housing tenants to move from one town to another in search of work. Only 3 per cent of those moving within the social housing sector do so for job related reasons compared to 12 per cent of house moves nationally and social tenants are only half as likely to move as those in other tenures.[115] More generally, very low rates of house building mean that it is not possible to migrate from A to B if B has no spare houses and cannot or will not build any more. In these circumstances the desire to migrate but the lack of ability to do so will express itself in house price differentials: lots of people want to move to from A to B, and so the houses in B are effectively auctioned to the highest bidders, with the difference in the price of housing in A and B reflecting the extent to which people would like to move from A to B, but cannot. We include, therefore, two measures: the change in proportion of the UK population who live in our sample towns and changes in the level of house prices in these areas relative to overall UK levels.

This figure shows, above all, the remarkably slow rate at which Britain builds houses in areas of economic success: on average, the population of our sample of successful towns has increased by just 0.05 per cent a year more than the national rise in population. To put that another way, each suc-

Figure 9: House Prices and Migration Rates, 1994 to 2005[116]



115 Hills J, *Ends and Means: The future roles of social housing in England*, CASEreport 34, 2007, p. 107-109

116. Sources: Halifax House Price Index and ONS

cessful town (average population, 250,000) grew by about one additional household per week. In contrast, the urban policy towns are losing population share, not rapidly – the housing system makes that difficult – but steadily.

In 1997 house prices were about 30 per cent lower in our urban policy sample than in the successful towns, and were 30 per cent lower at the end of the period too. Judging by the evidence on where people want to live, urban policy has not succeeded in turning round the towns and cities that it is targeting. On the contrary, these places are in pretty much the same relative position as they were in 1997.

Other indicators

There are plenty of other indicators that would show much the same picture. VAT registrations per head, for example, remained between 71 per cent and 76 per cent of the national average in our urban policy sample, and between 113 per cent and 125 per cent in the successful town sample. On average, a person in an urban policy town was 38 per cent less likely to register a new business than someone in our successful town sample. The ratio is converging slightly, but 93 per cent of the convergence was the result of falls in VAT registration in our successful towns, and only 7 per cent was driven by rises in VAT registration in urban policy areas. The gap in life expectancy has remained constant as well: it was 20 months in 1997, and 20 months in 2005; the difference is higher than in the early 1990s. Educational attainment (measured as the proportion of students getting five GCSEs at grade C or above, or equivalent) shows a similar story: students in our urban policy towns were 13 per cent less likely to meet this target than students from the affluent town sample in 2000, the first year for which data is readily available, and they were 12 per cent less likely to achieve it in 2005. Equally, people in the urban policy towns were 50 per cent more likely to have no qualifications at all than those in our successful town sample in 2000, by 2005 the gap had widened to 60 per cent.

Conclusions

On the whole, the prospects for those living in areas that have received significant levels of assistance from urban policy programmes have not been transformed in the past decade. That is not to say that the picture has been perfectly homogenous: some struggling areas have developed faster, while others have fallen even more behind. And of course, there are always lessons to be learnt from looking in detail at individual programmes. But nothing can take away the overall finding that, on average, areas that have been assisted by urban policy have not made good any of their shortfall. In gross value added terms, still the best single measure of a town's success, these areas are 10 per cent behind the national average and 40 per cent behind more successful towns. Furthermore, they are slipping slowly farther behind, while the group of successful towns move farther ahead. The people of Swindon are not intrinsically cleverer or harder working than the people of Warrington, although their populations have different skills. The key difference is that the people of Swindon live in Swindon, and the people of Warrington live in Warrington. Examining the lack of success of urban policies over the past decade and over the past half century, we find increasing evidence that the locational theory of city success and failure is correct. This conclusion may be depressing but that does not make it wrong. What would be wrong would be to fail to face up to it and so permit another generation to remain significantly below the standards of living prevailing elsewhere in Britain.

6

Discussion

Our analysis is unambiguous: urban policy has not worked. It is always possible for its defenders to point to examples of success, but these are the exception not the rule. As we have made very clear, failure is not the result of lack of commitment or expertise at either national or at local level. No one should doubt the dedication of national and local politicians to improving the lives of those in Britain's many struggling towns and cities, or the talents of those involved in the urban regeneration industry.

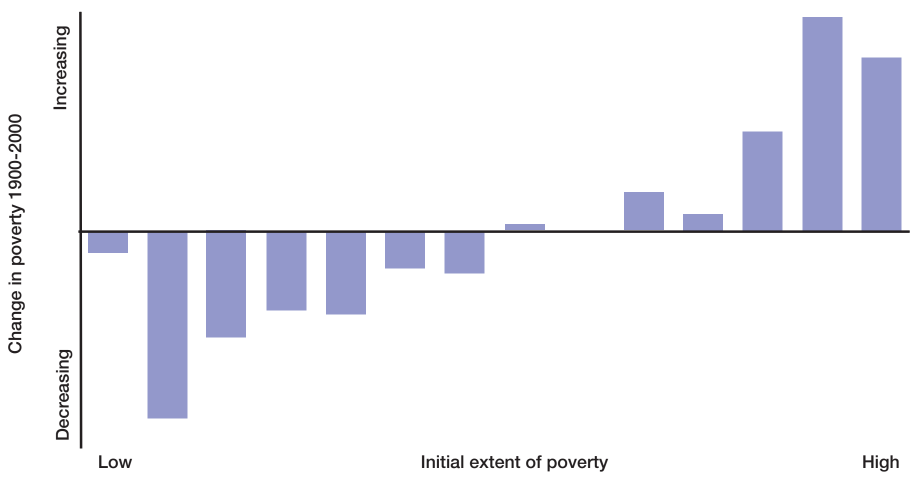
Our research uses new data and covers a different time period to other studies, but is one of a long line of reports whose conclusions point in the same direction.

Joseph Rowntree Foundation/ University of Sheffield report

One of the best recent independent reports on the longevity of decline is Poverty, Wealth and Place in Britain, 1968 to 2005 by academics at the University of Sheffield and funded by the Joseph Rowntree Foundation. They found that "wealth and poverty each demonstrate similar geographical patterns in every time period",[117] areas that were rich in 1968 were rich in 2005, and the areas that were poor in 1968 were poor in 2005. If anything the differences have become more pronounced: "Areas already wealthy have tended to become disproportionately wealthier, and we are seeing some evidence of increasing polarisation. In particular there are now areas in some of our cities where over half of all households are breadline poor."[118] This conclusion is based on detailed statistical evidence, which shows that places that already had high levels of poor households saw their numbers increase during the 1980s and 1990s.

Figure 10 shows that "more and more people became concentrated in enclaves of high poverty".[120] Nor is it the case that each

Figure 10: Spatial polarisation of the population by tract breadline poverty density during the 1990s[119]



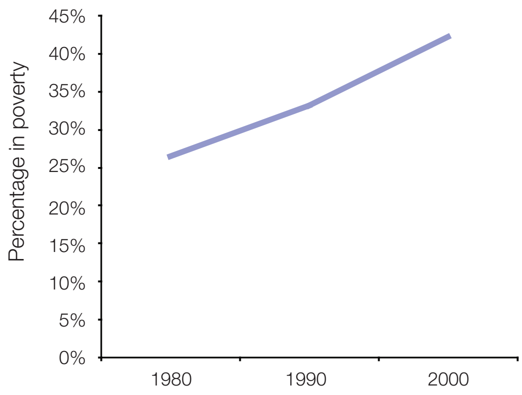
117. Dorling D, Rigby J, Wheeler B, Ballas D, Thomas B, Fahmy E, Gordon D and Lupton R, *Poverty, Wealth and Place in Britain, 1968 to 2005*, p xiii, Joseph Rowntree Foundation, 2007

118. Ibid, p xiv

119. Ibid, Figure 5. We are grateful to the authors for allowing us to reprint this figure

120. Ibid, p 31

Figure 11: Urban Poverty Levels in Seven Large Cities[123]



city had a mix of rich and poor areas. On the contrary, the authors found that, in terms of affluence and poverty, places were generally similar to those nearby, and that the degree of similarity had not changed over time.[121] Not only did they find that poor areas were clustered together, but also that they are clustered together today almost exactly where they were a generation ago.[122]

They found that the inner areas of London, Birmingham, Liverpool, Manchester, Tyneside, urban south Yorkshire as a whole, and "much of" Glasgow-Clyde all had less than 30 per cent of their populations in poverty in 1980. All these areas have been the target of many urban policy actions since then. The most recent figures show that six of those seven areas now have more than 40 per cent of their population in poverty, with the least bad performer – Tyneside – having 38 per cent in poverty. On average, their poverty levels have increased by more than half. As Figure 11 shows, urban poverty has increased relentlessly since 1980. Nor is there any reason to believe that conditions have changed more recently. For the period after 2000, the authors note: "the greatest income increases were in the least poor constituencies, while the poorer constituencies tended to experience quite substantial decreases in average income."

Taking a 30-year perspective, therefore, the University of Sheffield researchers found that urban policy has not transformed depressed urban areas and, insofar as their data allows them to judge, no evidence that urban policy has become more effective recently.

Institute for Public Policy Research findings

In July 2007 the Centre for Cities at the Institute for Public Policy Research (IPPR) published a discussion paper, *Two-Track Cities*, which began "the nation's cities are divided – into those that have achieved dynamic economic growth over the past ten years, and those that have not".[124] The five lowest performers in its dataset, Newcastle, Sunderland, Birmingham, Middlesbrough and Liverpool, are all places that have received much support from urban policy programmes, and yet they ranked bottom on the IPPR's performance matrix.[125] That report also suggested that many of our towns and cities are just too small for the modern economy, noting that some medium-size cities "do not have the economies of scale or the agglomeration economies … to have significant 'reach' into international markets".[126]

Government commissioned research

In 2000 the Government's Social Exclusion Unit commissioned a report from a team at the University of Oxford and the London School of Economics on whether "inequalities between deprived and non-deprived areas in terms of income, employment and long-term illness/disability increased during the 1990s".[127] They found that geographical location was one of the two key determinants of whether income deprivation improved over time (the other being the age-structure). "In geographical terms areas in London and the South East

121. Ibid, p 37. More formally they find that Moran's I statistic is over 0.5 for all years 1970-2000. Moran's statistic takes a value of between -1 and +1, where 0 means that rich and poor neighbourhoods are randomly located, a negative number means that a poor area was more likely to be near a rich area, and a positive number means that poor areas are clustered together, and rich areas clustered together elsewhere.

122. Ibid, pp 38-9, map 6

123. Ibid, p 41, weighted by city size. City sample: inner London, central Birmingham, inner Liverpool, central Manchester, urban South Yorkshire, inner Tyneside, much of Glasgow/Clyde

124. Athey G, Lucci P, and Webber C, Two-Track Cities: The challenge of sustaining growth and building opportunity, p1, IPPR, 2007

125. Ibid, p 4

126. Ibid, p 7

127. Office of the Deputy Prime Minister, *Changing Fortunes: geographic patterns of income deprivation in the late 1990s*, p 5, 2006

regions tended to have a greater drop in claiming rates than those in the North East and Merseyside, even where unemployment rates were similar in 1995."[128] All 20 of the highest ranked districts for income support, job seeker's allowance and invalidity benefit claimant rates in 1995 were urban: twelve in London, eight in the rest of the country (London is over-represented because individual London boroughs are counted separately).

Two things stand out from the experience of these areas. First, between 1995 and 1998, the period covered by the report, 19 of these councils remained in the top 20 (only Waltham Forest dropped out). Urban problems are persistent, even when the economy as a whole is doing well. Secondly, even within this group, geography is a reasonable predictor of which areas will do well and which badly. For England as a whole, the number of people claiming these benefits fell by 16.3 per cent. The picture in London was mixed, with seven of the twelve boroughs doing better than this, and five doing worse. Overall, therefore, the deprived boroughs of London were doing as well as the country as a whole. Not so the non-London deprived boroughs. All eight – Birmingham, Hull, Knowsley, Liverpool, Manchester, Middlesbrough, Nottingham and South Tyneside – performed below the UK average.[129] The location of cities matters: poor cities, or parts of cities, outside of London are struggling.

In November 2006 the Department for Communities and Local Government published a report that it had commissioned from academics at Oxford Brookes University and elsewhere. *State of the English Cities: The competitive economic performance of English cities* showed once again that location matters. Of the 56 cities in Britain, only one town (York) outside the South East region had a gross disposable household income above the national average in either 1995 or 2003. On that measure twenty-one places in the greater South East region were in the top half and seven outside it. Five cities were in the bottom half and twenty-three outside it.[130] The authors also studied changes in gross value added per capita 1995-2002, and found that eight of the nine cities whose GVA rise was 10 per cent or more above the national average were in the South of England. Conversely, all but three of the fifteen places whose GVA per capita rise was 10 per cent or more below the national average were outside the South East.

“The location of cities matters: poor cities, or parts of cities, outside of London, are struggling”

In four of those cities – Telford, Stoke, Middlesbrough and Blackburn – rises in GVA were less than half the English average.[131] The authors commented: "Gross disposable household income, gross value added per capita, visible exports, productivity and average earnings all diverged over the periods for which we have time series data."[132] Those areas that were in decline tended to decline further over time. The report was also sceptical that regeneration spending was effective; it was "open to question whether such policies as physical urban renaissance and physical regeneration will pay large dividends in terms of improved competitiveness".[133]

128. Ibid, p. 4

129 Ibid, pp 11-13, Table 2

130 Department for Communities and Local Government, *State of the English Cities: The competitive economic performance of English cities*, p 68, 2006

131 Ibid, p 74

132 Ibid, p 224

133 Ibid, p 228

7

Conclusions

The economic locus of Britain has moved South

The only conclusion consistent with the facts is that the locational theory of the rise and decline of cities is broadly correct. In the 19th century the Lancashire cotton industry boomed, and people moved to Lancashire to take advantage of the opportunities that were available. To have moved some of the cotton factories to Dorset, Suffolk and so on would have destroyed the advantages of agglomeration that Lancashire enjoyed. Today London is booming on the back of Britain's successful specialisation in finance. We cannot move JP Morgan's offices to Blackburn, Goldman Sachs to Hull or Deutsche Bank to Stoke-on-Trent any more than we could have moved cotton factories a century ago. As the history of Industrial Development Certificates shows, such attempts are at best ineffective and at worst not only prevent new jobs being created, but also destroy those that exist already.

> "Big cities can be successful even when they are not close to London"

Of course, the picture is more complex than that, and it would be quite wrong to suggest that only London and the South East are booming. There are successful places dotted throughout Britain, and in many cases they are located entirely serendipitously. Derby, for example, is luckier than Blackburn or Sheffield, for while Blackburn's weaving industry and Sheffield's steel industry have fallen victim to changes in technology and trade patterns, Derby's manufacturing base in engineering – initially railways and now aerospace engines and, to a lesser extent, cars – has been longer-lived and shows no signs whatsoever of declining. Derby is twice lucky: the sectors in which it specialises have been successful, and the companies it has attracted, such as Rolls-Royce and Toyota, are undisputed world leaders.

Size matters

Larger urban areas appear to be doing better than medium-size ones. London is the most obvious example, but it is not the only one. Within regions more distant from the capital, some large cities are doing better than the smaller towns around them. We can see this by looking at the pressure on land. In the North West, land for housing is worth £5.75 million a hectare in Manchester, more than double the value of land in nearby Blackburn, Rochdale and Bolton. In the North East, land in Newcastle is worth £3.1 million, almost double the value of land in Middlesbrough. What is true for the English regions is also true for Scotland and Wales. Land in Glasgow at £2.75 million is worth much more than land in nearby Motherwell, and land in Cardiff at £4.9 million is worth almost four times the value of land in Merthyr Tydfil. Big cities can be successful even when they are not close to London. That said, we should not get too carried away by the perception that these places are booming: the same hectare of land would be worth £8 million in Oxford or Cambridge, £12 million in Camden and £14 million in Southwark.[134]

What next?

We should not continue simply as we are, spending large sums and failing to achieve any noticeable degree of convergence. That is a waste of money and, more importantly, fails to offer opportunity to people unlucky enough to have been born in the wrong place. But nor should we give up on urban policy, still less on urban areas.

If, as we argue, the locational theory is correct, Britain needs to consider policies that will make it easier for people to work in places that have high productivity and therefore offer high wages. This can be achieved by some combination of migration and commuting. Much of this discussion will inevitably, and rightly, concentrate on issues to do with London, but as we have seen there are other areas of economic success in Britain, particularly, but not only, in larger towns.

We need to accept that if the optimal size and location of cities have changed, then some of our cities are likely to grow and others shrink. Urban policy should, first of all, provide towns and cities with incentives to grow. Secondly, it should prevent towns that get smaller from becoming ghost towns, full of empty properties. Instead they must be enabled to contract in ways that work for local people in a reduced context. Thirdly, we need to give towns and cities considerably more freedom to decide how to use regeneration money. In a society where almost 90 per cent of the population is urban,[135] such as in Britain, there will always be a role for urban policy. We need to make sure that it is the right role, for the communities affected and for Britain as a whole.

In the next volume we will explore how other countries have coped with urban change and try to draw out lessons for Britain. The third volume will suggest new policies, aiming above all to offer solutions for those who are living in towns that offer few prospects.

134. Valuation Office Agency, *Property Market Report*, January 2007. Residential housing bulk sites. Other series give similar results

135. Population Division of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2004 Revision*, and *World Urbanisation Prospects, the 2005 Revision*, http://esa.un.org/unup

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