

Institution: London School of Economics and Political Science
Unit of Assessment: 17: Geography, Environmental Studies and Archaeology
Title of case study: Improving urban economic policy in the UK: from regional to city policy-making
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Economic prosperity in the UK is very unevenly distributed across space. Tackling these persistent disparities by improving local economic performance is a key policy objective. Research conducted by LSE staff has made direct contributions to government thinking and to specific policies both at central and local levels. First, the research has influenced the Government's shift from regional to city policy-making: abolishing Regional Development Agencies; establishing Local Enterprise Partnerships [LEPs] and bespoke 'City Deals'. Second, researchers from LSE have directly influenced the development of economic strategies in Birmingham, Cambridge, the North East LEP area and Manchester.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p><i>Research Insights and Outputs:</i></p> <p>LSE research on urban economics has increasingly focused on applied work and assessing policy, culminating in 2008 with the formation of the Spatial Economics Research Centre (SERC). SERC, led by Overman during the REF period, is funded by the Department of Business, Innovation and Skills (BIS), Department of Communities and Local Government (CLG) (Phase 1 only), the ESRC and the Welsh Government. SERC's mission is to provide a rigorous understanding of the nature, extent, causes and consequences of economic disparities in the UK and to identify appropriate policy responses. Department of Geography and Environment, Centre for Economic Performance (CEP) and SERC researchers work closely together to help improve urban policy at both the national and local levels.</p> <p>The underpinning research starts from the fact that economic prosperity is very unevenly distributed across space. It is inconceivable that this can be explained purely by differences in physical geography (e.g. natural resources). Instead the economic system amplifies and reinforces initial differences to generate persistent disparities. This happens because there are self-reinforcing 'agglomeration' economies from the concentration of activity. These benefits arise in many different ways. Research by LSE staff has formalised modelling of these different sources and their implications [1]. Empirical work [2, 3, 4] has helped identify and quantify the different channels through which agglomeration economies operate.</p> <p>A range of costs offset these agglomeration benefits. As activity concentrates, the price of scarce resources increase; land and housing become more expensive; roads become congested; pollution increases. Government policy, particularly land use policy, plays a crucial role in determining these costs. The impact of the UK's restrictive land supply policy in increasing urban costs has been a central focus of LSE urban economic research [5, 6].</p> <p>LSE researchers have also shown how these cost/benefit interactions inform the spatial structure and evolution of the economy, and the linkages between places [7]. In particular, our research has shown that policy makers need to be realistic about the economic forces that drive spatial unevenness, to recognise that there may be a trade-off between spatial equity and efficiency, and to recognise differences between spatial and individual equity. Empirical work has drawn out many lessons for policy, including the appropriate geographical scale for policy making, as well as questioning the extent to which the evidence supports traditional policy responses (e.g. through the Unit's work on geographical clustering).</p>

Key Researchers:

Strengthening the theoretical frameworks, conceptual tools, analytical skills and evidence base necessary to help formulate urban policy has been a focus of LSE research for many years. One strand of research, developing the New Economic Geography, was led by Tony Venables (Economics, now at Oxford) in his role as director of the LSE Centre for Economic Performance (CEP) globalisation programme (1992-2005). A second strand, focussing on land planning and housing markets, was developed by Paul Cheshire (Geography) after he joined LSE in 1995. The late-1990s saw some CEP researchers increasingly focusing on the economics of cities. Links between these two research strands were strengthened when a number of CEP researchers (including Gilles Duranton in 1996, Henry Overman in 1999, Steve Gibbons in 2003, and Olmo Silva in 2007), and faculty from outside CEP (Christian Hilber in 2003), were appointed as full-time staff to LSE. Duranton left in 2007, whilst Cheshire, Gibbons, Hilber, Overman and Silva been continuously employed at LSE in the Geography Department since the time of their first appointments.

3. References to the research (indicative maximum of six references)

1. Combes, P. P., G. Duranton and H. G. Overman (2005) 'Agglomeration and the Adjustment of the Spatial Economy'. *Papers in Regional Science* 84 (3), pp. 311-349. DOI: 10.1111/j.1435-5957.2005.00038.x
2. Duranton, G. and H. G. Overman (2005) 'Testing for Localisation Using Micro Geographic Data'. *The Review of Economic Studies*, 72 (4), pp. 1077-1106. DOI: 10.1111/0034-6527.00362
3. Cheshire, P, Magrini, S (2005) 'Urban growth drivers in a Europe of sticky people and implicit boundaries'. *Journal of Economic Geography*, 9 (1). pp. 85-115. DOI: 10.1093/jeg/lbn044
4. Gibbons, S., and O. Silva (2008) 'Urban density and pupil attainment', *Journal of Urban Economics*, 63 (2): 631-650. DOI: 10.1016/j.jue.2007.04.006
5. Cheshire, P. and C.A.L.Hilber, (2008), 'Office space supply restrictions in Britain: the political economy of market revenge'. *Economic Journal*, 118 (529). DOI: 10.1111/j.1468-0297.2008.02149.x
6. Hilber, C. and W. Vermeulen (2012) 'The Impact of Supply Constraints on House Prices in England, *SERC Discussion Paper* no. 119. <http://ideas.repec.org/p/cep/sercdp/0119.html>
7. Overman, H. G. and P. Rice (2008) 'Resurgent Cities and Regional Economic Performance'. *SERC policy paper 001* <http://eprints.lse.ac.uk/51605/>

Evidence of quality: 1, 2, 3, 4, and 5 are published in top-ranked journals.

Grants that supported this research: HEIF 5 (£95k; PI Overman; 2012-14); BIS/ESRC/WG 2nd phase SERC (£900k; PI Overman; 2012-14); ESRC: Wider impacts of transport (£200k, PI Gibbons; 2010-12); DEFRA: Rural proofing SERC research (£70k; PI Overman; 2009); Northern Way: Manchester-Leeds Linkages, (£250k, PI Overman; 2009); BERR/CLG/ESRC/WG 1st phase SERC (£2.875m; PI Overman; 2008-11); ESRC, Large grant: Localisation in UK manufacturing industries (£130k; PI Duranton; 2002-04).

4. Details of the impact (indicative maximum 750 words)*Nature of the Impact:*

Research undertaken by LSE staff has influenced Government policy directly – through research outputs, formal roles on expert panels, and close working with Ministers and officials (see Sources A-C, E-J). Impact has also been achieved indirectly through policy intermediaries – notably think tanks such as Centre for Cities (see Source D), Institute for Public Policy Research (IPPR) and Policy Exchange, who have used the underpinning research in their policy reports and lobbying.

The move from regional to city policy-making: The Coalition's shift from regional to city policy-

making represents the biggest shift in sub-national governance and institutions since the establishment of Regional Government Offices and Development Agencies (RDAs) in the mid-1990s. The 9 RDAs (created and funded by central government) have been replaced by 39 Local Enterprise Partnerships or LEPs (voluntary partnerships between local authorities and business). At the same time 10 'City Deals' have handed greater independence to a number of cities. A second wave of city deals will expand this approach to 20 more areas. Central government is also considering how to further devolve funding to Local Authorities following the recommendations of the Heseltine Review. As a result of these reforms local governments have increased freedom to determine policy and expenditure priorities (albeit with decreased resources and capacity to do so).

The underpinning research described in Section 2 directly influenced these reforms. In particular, it made the case that to improve local economic performance (a) policy should be focused on a smaller number of places best placed to achieve private sector growth, and (b) that local decision making should 'line up' with functional urban areas. While a belief in localism has driven the overall approach, the specific changes implemented by the City Deal and LEP reforms have translated these general principles into the resulting policy framework for local economic development policy. SERC policy paper #001 [7] made the case for (a), drawing on other LSE research. The Local Growth White paper (Source A) references this and other LSE research as providing evidence to support the coalition's new approach. The case for (b) is made in output [3]. 'Unlocking Growth in Cities' (Source B) references this paper as central to the economic case for the City Deal approach.

Cheshire, Gibbons and Overman worked with BIS, CLG, HM Treasury and Cabinet Office to persuade them of the case for (a) and (b). Examples of meetings where these issues were considered include the SERC launch event at BIS (25/06/08), a BIS ministerial seminar (13/11/08), a Strategy unit seminar (11/12/08), a BIS Secretary of State Seminar (09/03/09), a GES housing conference (26/03/09), a BIS analysts conference (24/09/09), a BIS ministerial seminar (24/06/10), a BIS local growth white paper meeting (14/09/10), a BIS ministerial clusters meeting (05/04/11), and a BIS Secretary of State planning briefing (10/05/11). SERC annual reports catalogue dozens of additional meetings during 2008-2013. Overman further highlighted these points with the Deputy Prime Minister and the Cities Minister at a roundtable on City Deals (14/04/11; Source E). Following the first round of City Deals, Overman held monthly meetings with the Cities Policy Unit to provide advice on issues arising in the Wave 2 City Deal process (Source E). He also provided advice to BIS on possible reforms to the Regional Growth Fund and the implementation of the Heseltine Review, which sought to strengthen the role of local authorities (Source F). High-profile think tanks – the Centre for Cities in particular – also used the underpinning research in their own policy papers, which in turn influenced the process (Source D).

Helping cities make the most of localism: The underpinning research has also helped a number of local governments to respond to these changes and develop stronger economic strategies. The most significant impact resulted from work undertaken for the Manchester Independent Economic Review (MIER) and the on-going relationship with policy makers in that city (Sources C, G). The report by Gibbons and Overman for MIER drew on a conceptual framework developed from output [7] to make the case for a strong focus on Manchester, even if this might widen spatial disparities in the North West. On the basis of output [3] and further original research for the review, our report questioned MIER's original focus on key sectors and the need for a 'local' industrial policy. Accepting that 'On the basis of the evidence presented in this review, conventional sector-based policies seem not to add value' (p. 6, Source C), the Review Panel called for an emphasis on skills, transport and housing (again, supported by the underpinning research). Our emphasis on the need for land use and transport planning to be more responsive to demand drew heavily on [5] and [6] and helped make the case for two specific policy developments. First, the decision to locate the city's Enterprise Zone in the high demand area near Manchester airport. Second, the decision to focus transport investment on growth objectives and to include this as a component of the City Deal struck with Whitehall. The research continues to influence policy development in Manchester through Overman's role on the LEP Economic Advisory Board.

Funding from the HEIF 5 programme allowed the SERC to work with a number of other local authorities to help them respond to the City Deal process (Sources G-I). In Birmingham, we worked with the Strategic Director (Development) to help develop the LEP economic strategy. Our land market research underpinned our think piece for the North East LEP on land use policy (one of a number of pieces of evidence used in the development of the recommendations of the North East Independent Economic Review). We worked with Cambridge and partners on their City Deal expression of interest, with a particular focus on demonstrating that new growth was likely to be additional rather than simply a result of shifting activity to Cambridge from other UK cities (drawing on our work on agglomeration economies [1]). Interventions here were crucial in helping the city reach agreement on the governance arrangements for the city deal (Source H).

Wider Implications: Effective city policy making will be increasingly important for achieving the UK's economic growth objectives. This Unit's research and impact work is making a significant contribution toward this objective, informing central government's reforms aimed at moving from regional to city policy making and helping Local Authorities and LEPs respond to these reforms.

5. Sources to corroborate the impact (indicative maximum of 10 references)

All Sources listed below can also be seen at: https://apps.lse.ac.uk/impact/case_study/view/12

A. BIS (2010) Local Growth White Paper <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/u/10-1226-understanding-local-growth>

B. Cabinet Office (2011) Unlocking Growth in Cities

<http://www.communities.gov.uk/publications/regeneration/growthcities>

C. The Manchester Independent Economic Review <http://www.manchester-review.org.uk/>

D. Room for Improvement: Creating the financial incentives needed for local economic growth, Centre for Cities <http://www.centreforcities.org/research/2011/07/13/roomforimprovement/>

E. Former Chief Economist at the Cities Policy Unit, Cabinet Office. This source is confidential.

F. Economic Advisor, Enterprise and Economic Development, BIS. This source is confidential.

G. Chief Executive, New Economy, Manchester. This source is confidential.

H. Director of Economy, Transport and Environment, Cambridge County Council. This source is confidential.

I. Chief Executive, North East Local Enterprise Partnership. This source is confidential.