Cities Unlimited

Making urban regeneration work

Tim Leunig and James Swaffield

Edited by Oliver Marc Hartwich

Policy Exchange is an independent think tank whose mission is to develop and promote new policy ideas which will foster a free society based on strong communities, personal freedom, limited government, national self-confidence and an enterprise culture. Registered charity no: 1096300.

Policy Exchange is committed to an evidence-based approach to policy development. We work in partnership with academics and other experts and commission major studies involving thorough empirical research of alternative policy outcomes. We believe that the policy experience of other countries offers important lessons for government in the UK. We also believe that government has much to learn from business and the voluntary sector.

About the authors

Dr Tim Leunig is lecturer in economic history at the London School of Economics. His research looks at Britain since 1870, including a number of papers that look at different aspects of city life over the ages. His work has won a number of international awards, and was recently judged to be 'outstanding' by the Economic and Social Research Council. He has advised Parliament, the Treasury and the Department for Transport.

James Swaffield is a Research Fellow at Policy Exchange carrying out research on cities and urban policy. He studied Geography at Oxford University. After graduating in 2004 he spent a brief period working in the public sector before completing an MSc in Cities, Space, and Society at the London School of Economics in September 2006.

Dr Oliver Marc Hartwich is Chief Economist at Policy Exchange with responsibility for economic competitive- ness. He was born in 1975 and studied Business Administration and Economics at Bochum University (Germany). After graduating with a Master¹s Degree, he completed a PhD in Law at the universities of Bochum and Sydney (Australia) while working as a Researcher at the Institute of Commercial Law of Bonn University (Germany). Having published his award winning thesis with Herbert Utz Verlag (Munich) in March 2004, he moved to London to support Lord Matthew Oakeshott of Seagrove Bay during the process of the Pensions Bill.

The authors have previously worked together for Policy Exchange on *Cities limited*, a report on urban policy in the UK and *Success and the City*.

Published by
Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY
www.policyexchange.org.uk

ISBN: 978-1-906097-28-8

Printed by Heron, Dawson and Sawyer
Designed by John Schwartz, john@soapboxcommunications.co.uk

Contents

Acknowledgements

Policy Exchange would like to thank Natalie Evans, Sam Freedman, Philippa Ingram, Max Nathan and Nick Tiratsoo.

ir

Executive Summary

Cities limited, the first of three reports, demonstrated that attempts to regenerate British cities over the past ten, twenty or even fifty years have failed. The gap between struggling and average cities, let alone between struggling and affluent cities, has continued to grow. Geographical inequality is growing. Our second report, *Success and the City*, examined experience abroad and the lessons other countries can teach British policymakers. This final report, *Cities unlimited*, uses the evidence that we have gathered so far about what is possible and what is not, about what works and what does not, to offer new policy proposals for regenerating Britain's cities.

Many of the forces that make life tough for struggling cities will continue. As demand for more highly qualified workers grows, the lower skill levels associated with regeneration towns will make it even harder for them to catch up – not least because their brightest and best educated leave for London after graduation. Nor is a change of government likely to continue supporting regeneration policy. Ministers in the current Labour Cabinet overwhelmingly represent inner city areas. A future Cabinet, perhaps more representative of suburbs and the wealthy South East, may not have the same commitment to high levels of regeneration funding, particularly if economic circumstances demand a squeeze on public spending.

But if we are honest about the constraints and realistic about the opportunities then we can make progress. We need to accept above all that we cannot guarantee to regenerate every town and every city in Britain that has fallen behind. Just as we can't buck the market, so we can't buck economic geography either. Places that enjoyed the conditions for creating wealth in the coal-powered 19th-century often do not do so today. Port cities had an advantage in an era when exporting manufactured goods by sea was a vital source of prosperity; today the sea is a barrier to their potential for expansion and they are cut off from the main road transport routes. More generally, the economic pull of Europe has boosted the South East at the expense of the North, Wales and Scotland. Luck has also played its part: in 1900 London had finance and Manchester had cotton. Finance has since prospered and cotton collapsed, reinforcing geographical changes.

There is no realistic prospect that our regeneration towns and cities can converge with London and the South East. There is, however, a very real prospect of encouraging significant numbers of people to move from those towns to London and the South East. We know that the capital and its region are economic powerhouses that can grow and create new high-skilled, high-wage service sector hubs. At the same time market mechanisms can be used to induce some firms to move out of the South East.

We propose a significant liberalisation of land use in London and the South East. At present local councils ignore market signals and zone land for industrial rather than residential use. There are over 2,500 hectares of industrial land in London alone, and 10,000 hectares in London and the South East together. If only half of it were used for housing, it would create £25 billion in value and allow half a million people to move to an area that offers much better prospects than where they live now. Such a market-led policy would prompt many industrial firms that are based in London to relocate to where land is cheaper. So some people will leave regeneration cities; some jobs will move to regeneration cities. Both are desirable outcomes.

We should go further. No one likes urban sprawl per se, but suburbs offer a high quality of life to those who live in them and create the economic "bulk" that makes cities both prosperous and vibrant. Increasing the size of London so that it takes an extra minute's journey to reach the edge of town would make room for another million people, increasing their opportunities.

We know that the South East offers the greatest agglomeration potential, so it makes sense to think seriously about having more than one large city in the South East, where London has dominated for so long. We also know that cities based on highly skilled workers are the most dynamic. Oxford and Cambridge are unambiguously Britain's leading research universities outside London and both are well located economically. We should consider expanding both dramatically, just as Liverpool and Manchester expanded in the 19th century. Dynamic economies require dynamic economic geography.

Of course there are successful high-tech clusters outside the South East and it is right that they should build on their strengths. But in many cases that does not imply huge expansion. Manchester, Leeds and Newcastle, for example, all have decided strengths, but they are not successful enough to deliver prosperity to neighbouring towns, such as Rochdale, Bradford and Sunderland, in the way that London is able to support relatively poor communities in North Kent and South Essex.

It is important to recognise the constraints that face many communities. Their residents are certainly aware of them: our regeneration towns' share of the population continues to fall as people get on their bikes and move to places that offer better prospects. Liverpool's population is little over half its peak level.

There is no doubt that Britain starts at a disadvantage compared with, say, Germany or the Netherlands because its cities of the industrial revolution are geographically more peripheral than theirs. The relative weakness of local government here has compounded this disadvantage; our studies of cities around the world – in Germany and the Netherlands, in Poland, Canada and Hong Kong – demonstrate that local communities manage their affairs better than a distant central government can ever do.

Devolution has many advantages. It leads to diversity, and diversity creates evidence as to what works and what does not. Anyone who believes in evidence-based policymaking should support large-scale devolution. We propose that the Government should roll up current regeneration funding streams and allocate the money to local authorities according to a simple formula based on the inverse of their average income levels. Central funding would be available for a handful of exceptional circumstances, such as decontaminating highly polluted land.

It would be for local authorities to assess the opportunities, devise a plan for their area and implement it. They would be answerable not to central government, but to local people. They could spend the money on traditional regeneration ideas, such as supporting local firms or attracting inward investment. They could use the money to revitalise town centres or provide infrastructure links. Or they could pursue a more people-oriented strategy and finance job clubs or skills training courses.

If a local authority believes that attracting entrepreneurs is the right approach, then it would be perfectly legitimate to spend money providing facilities to do so. All local authorities would have the right to use the money to create a unique selling point – the best parks in Britain, the most trees – to get away from being an identikit town. A council could decide to attract parents who care about education by spending its money on schools. It may well be the case that doubling teachers' pay and cutting class sizes substantially would transform schools and attract new people. Affluent Manchester workers, for example, might be attracted to buy homes in the catchment areas of such schools in Rochdale. Their demand for local goods and services would create jobs. Finally, an area that decided that there was no realistic chance of regeneration could use the money to help local people to find work elsewhere and to cut taxes for those who remained.

Many of our regeneration towns are shrinking. Demolition policy is not working: it is expensive and is failing to transform local housing markets. We propose that, wherever possible, we should stop demolishing properties. Instead, the Government should buy up the cheapest houses on the open market and give them to the next door neighbour in exchange for an equity stake in the expanded property. Houses in regeneration towns tend to be relatively small, so a scheme that cuts costs for government – it would not have to bear the costs of demolition or pay for compulsory purchase – and increases the average size of a house has obvious appeal.

Finally, if we are to devolve funding to local authorities we need to ensure that they are accountable to local people. That means much better scrutiny by the Audit Commission and local media and greater rights for local people to investigate what the town hall is doing. It also means ensuring that the voting system makes elections truly contestable, so that all politicians, whether in office or opposition, know that voters can – and will – hold them to account at the ballot box.

Realism, mobility and diversity. Freedom, responsibility and accountability.

These are the keys to unlocking the potential that exists in our towns and cities.

1

Introduction

Cities limited set out a critique of urban regeneration policy over the last ten years. It did not look at individual programmes, but rather asked the most fundamental question of all: have the places that were the focus of regeneration policy been regenerated? We did not claim, and do not claim, that these towns and cities have not improved since 1997. A decade of strong economic growth means that it is almost impossible to find any place that has not improved. Nor did we claim that the regeneration money that has been spent has achieved nothing. It is almost impossible to spend billions and billions, year in and year out, and achieve nothing at all. But we did claim – and no one has disputed this – that, far from catching up, the places we focused on, towns and cities that experienced wave after wave of regeneration initiatives, have fallen further behind the national average. In contrast, towns that were successful in 1997, and not the subject of regeneration policies, have pulled further ahead. The gap between successful and unsuccessful towns and cities has widened despite a decade of ambitious regeneration policies. We argued, therefore, that regeneration policy over the last decade has failed.

Success and the city: Learning from international urban policies examined cities and city regions in five countries. All have dealt with challenges that were in some ways similar to those faced by British cities and city regions. We looked at the Ruhr area, which faces very similar challenges to those of many former industrial regions in Britain. We looked at Poland, facing up to a complete change in the nature and orientation of the economy. We looked at Amsterdam, and the Randstad more generally, an area coping with change and renewal in the context of a successful economy. And we looked at two classic regeneration cities, Vancouver and Hong Kong, where strong local government leadership is taken for granted, and where the locality, not the nation state, determines the priorities, makes the decisions and takes responsibility. These cities showed us that incentives, power and ability matter. Cities are more likely to be successful when city leaders are given responsibility, but responsibility alone is not sufficient. As ever, the foundation of successful policymaking and implementation requires ability, as well as responsibility.

Cities Unlimited sets out our vision of how Britain should approach regeneration. It takes seriously the lessons of economic geography, of Britain's experience and of experience elsewhere. It accepts that no one-size-fits-all policy can ever hope to come to terms with the myriad of different circumstances faced by different communities in Britain, particularly if it has been formulated at the centre and imposed on our towns and cities. The radical policies that we set out here – including accepting significant population movements within Britain and a substantial reduction in the power of Whitehall and Westminster, coupled with corresponding increases in power for local councils and, therefore, local accountability – may not make for comfortable reading.

Many of Britain's towns and cities have failed – and been failed by policymakers – for too long. It is better to tell uncomfortable truths than to continue to claim that if we carry on as we are then things will turn out well. The people who pay the price of this failure are those born in towns that offer fewer opportunities than those enjoyed by people lucky enough to be born elsewhere. That cannot be acceptable: we need to change our approach.

2

Cities Limited

Cities limited, the first in this series of three publications on urban policy, examined the combined performance of 18 towns, each of which had received significant levels of regeneration funding. By aggregating performance for a group of places we avoided exogenous effects, such as the closing of a local military base, from dominating our results. The places that we studied ranged from Glasgow in the North to Southampton in the South, from Merthyr Tydfil in the West to Hull in the East. Some of the towns were small – Hastings and Merthyr have fewer than 100,000 people, while others, such as Sheffield and Glasgow, have more than five times that number.

It would have been possible to have used a different sample of towns. We could have included Grimsby and Middlesbrough, Accrington and Bacup (or just about any of the 19th-century Lancashire mill

1 These towns are respectively 23, 53, 83 and 81 miles from London

Figure 1: Geographical location of sample

towns), Portsmouth and Margate. We do not believe that the results would have been materially different. Nor do we accept the criticism made by some that we picked failing towns and showed that they have failed. All our towns received significant levels of regeneration funding and, as such, are legitimate cases to include in a study of the effects of regeneration policy. Those who argue that we simply picked on failing towns at very least need to explain why there are 18 cities for which regeneration funding was so ineffective.

In addition, we constructed a smaller sample of successful towns. We were careful not to include the runaway successes: not everywhere can be the City of London, Chelsea, Oxford or Cambridge. Instead we picked one affluent London commuter town, Windsor, three more distant towns that are at least semi-independent of London's orbit, Milton Keynes, Peterborough and Swindon[2] and two independent, thriving cities, Bristol and Edinburgh.

We judged success by a range of criteria. First, we looked at gross value added (GVA), the local equivalent of gross domestic income (GDP). Data from the Office of National Statistics shows that aggregate GVA scores for the 18 cities which were subject to regeneration initiatives fell from 90 per cent of the national average to 86 per cent between 1997 and 2005, continuing an established trend. In contrast our successful cities' GVA rose over the same time from 131 per cent of the national average to 143 per cent.

Secondly, we used Revenue & Customs data to look at personal incomes. The story was fairly similar to that for GVA, but not as pronounced. The personal incomes of our regeneration group continued to slip relative to the country as a whole, and particularly relative to our sample of successful cities.

We looked at unemployment, which has fallen across Britain in the last decade, but remains 40 per cent higher in our regeneration sample. Since unemployment levels have remained fairly stable over the last five years, this suggests that they are structurally higher in our regeneration towns than elsewhere in the country. Some, but not all, of this variation in unemployment can be attributed to skill levels: Leunig and Overman report that individuals without GCSE level skills have a one in five chance of being unemployed if they live in Windsor, but a one in three chance if they live in Blackburn.[2]

> “People on the ground know the reality of success and failure better than any policymaker or analyst can ever hope to do”

Our fourth indicator is perhaps the most important: where do people want to live? This surely is the bottom line. It is the least technocratic, the least academic, the most outcome focused, because it asks what are individuals choosing to do with their lives. Remember that housing in these regeneration towns is generally much, much cheaper than housing in Britain as a whole. If they really were being regenerated we would expect people to be moving to them to take advantage of this opportunity. Equally, it is costly for those who live there already to move out. If they are owner occupiers they will have to trade down or increase their mortgage outgoings; if they are renters then they will pay more rent. If regeneration were really happening, these people would not leave.[3]

Far from people moving to these areas, we find that the proportion of the population living in our regeneration cities has fallen by about 5 per cent over the last decade. These are not places in the process of regeneration and which offer bright futures to would-be migrants. On the contrary, these are towns which people are

2 Leunig T and Overman H, “Spatial Patterns of Development and the British Housing Market”, *Oxford Review of Economic Policy*, Spring 2008

3 In contrast social housing tenants are, as is well known, almost unable to move between regions and very few do. We can learn little from looking at the mobility of social housing tenants. Hills J, Ends and Means – *The future roles of social housing in England*, CASE report 34, Centre for the Analysis of Social Exclusion, 2007

leaving, notwithstanding the higher cost of living elsewhere. People on the ground know the reality of success and failure better than any policymaker or analyst can ever hope to do, and they are voting with their feet. We do not know how many people would leave these regeneration towns were they not constrained by differential housing costs or the geographical restrictions imposed by social housing tenancies.

Our results should not have come as a surprise to politicians or the policy community. Although our research was methodologically different to other studies, the results were very similar. The Joseph Rowntree Foundation commissioned the University of Sheffield to study the economic geography of Britain. Their focus was on a longer period, 1968 to 2005, but their results were similar: those areas that were poor in 1968 were poor in 2005. Regeneration has not happened. Like us, they found that more successful areas were drawing further ahead: "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."[4]

The Centre for Cities, then at the Institute for Public Policy Research (IPPR), looked at the last ten years, and came up with much the same conclusions: many of Britain's cities are not successes, and are not offering their residents the opportunities that they might legitimately expect after ten years of solid economic growth.[5] Analysis by Policy Exchange and IPPR comes to the same conclusion because the conclusion that regeneration policy has failed stems not from ideology, but rather is inescapable to anyone who looks at the evidence.

Nor can the Government claim ignorance, for its own commissioned work shows the same thing, time and again. An Oxford University and London School of Economics report in 2001 for the Social Exclusion Unit showed that many urban areas had consistent and persistent problems that showed no evidence of declining over time.[6] They found that every initially deprived place outside London recorded below average performance between 1995 and 1998, the period covered in the report.

More recently the Department for Communities and Local Government (DCLG) commissioned Oxford Brookes University to assess English cities. The team looked at gross value added (GVA) between 1995 and 2002 and found that rises in GVA in some towns – including Stoke and Blackburn from our sample – were under half the English average.[7] The report also questioned the effectiveness of regeneration funding, arguing that it was "open to question whether such policies as physical urban renaissance and physical regeneration will pay large dividends in terms of improved competitiveness."[8]

These results paint a gloomy picture, in which regeneration for many cities exists only in the eyes and speeches of politicians. As we made clear, there is no doubt that Labour was genuinely committed to regeneration – these are Labour heartlands after all, the constituencies of many Labour Cabinet ministers. Nor is it the case that Labour has failed where the Conservatives had succeeded: the trends that we found began before 1997. We did not identify a well-intentioned but ultimately unsuccessful policy change in 1997 that simply needs to be reversed. Instead the challenge is harder, and that is why we next looked around the world to see how things worked there.

4 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 xiv, Joseph Rowntree Foundation, 2007

5 Athey G, Lucci P and Webber C, Two-Track Cities: *The challenge of sustaining growth and building opportunity*, Discussion Paper no 11, Centre for Cities/IPPR, London, July 2007

6 *Changing Fortunes: Geographic patterns of income deprivation in the late 1990s*, Renewal Research Summary 41, Social Exclusion Unit / Department for Transport, Local Government and the Regions, London, 2001

7 Department for Communities and Local Government, *State of the English Cities: The competitive economic performance of English Cities*, London, 2006

8 Ibid, p 224

3

Success and the city

Because politicians and civil servants generally work only in their own country, knowledge from other nations does not cross borders at either the political or administrative level as a matter of course. Domestic policymakers need to make real efforts to learn from other countries' successes and failures. International comparisons are a core part of Policy Exchange's evidence-based approach to policy.

Success and the city was the result of 50 interviews conducted across three continents and five nations. We investigated the success, or otherwise, of Vancouver; the Dutch Randstad, particularly Amsterdam; the German Ruhr region; the Polish cities of Warsaw and Łódź; and finally Hong Kong.

The two most successful cities that we visited, Vancouver and Hong Kong, were also the largest. We do not believe that this is a coincidence. Large cities frequently serve as a magnet for high-skilled workers, people capable of driving an economy forward, creating and sustaining firms that offer good quality, long lasting jobs. We need to understand that for cities, economically at least, big is beautiful, an issue we return to in the next chapter.

Big can also be politically advantageous. A city such as Vancouver is simply too large to fail. Governments can get away with neglecting smaller places if they so choose, but they cannot get away with ignoring the largest places. Throughout history riots and rebellions have overwhelmingly occurred in the largest cities. The concentration of poverty and dereliction are politically volatile, and that is why governments take care to ensure that big cities do not fail too badly. Whatever the legal or constitutional position, a city's size gives it political clout, locally and nationally. The mayor or council of a large city will have a large budget. They can afford to hire better advisers – both on regeneration and on fighting their corner. The city will have more representatives in the national parliament than smaller places. With quantity, comes quality: the more members of parliament a city has, the greater the chance that one of them is a minister or a heavy hitter of another type. Perhaps it should not be so, but that is the reality.

But we found more to regeneration than size, or importance: Warsaw is Poland's largest city yet not obviously successful. What we have found, time and again, is that the degree of flexibility accorded to local areas matters. When areas have to do what they are told by bureaucrats hundreds or even thousands of miles away, regeneration is stifled. When they are given more autonomy, regeneration appears easier. The extreme case of this is Hong Kong, where the "one country, two systems" constitutional position guarantees Hong Kong a degree of autonomy that we believe to be unique. Hong Kong has faced many challenges over the past two decades, including uncertainty and fear of change, economic turmoil in the region, and the rise of local economic rivals such as Shanghai. Yet through all of that Hong Kong's Government was able to act with considerable autonomy, to be entrepreneurial.

If nowhere else has the same degree of autonomy or independence as Hong Kong, nowhere is as centralised as Britain.

Germany gives considerable freedoms not only to the states – protected under the nation's federal constitution – but also to its cities. Places in the Ruhr, such as Essen and Bochum have the freedom to experiment and to adapt to local conditions. Essen, for example, has used that freedom to devise incentives to attract firms such as ThyssenKrupp. A tradition of decentralised power structures is also strikingly evident in the Netherlands and Canada. Thus, Amsterdam can design its own development and fund it, and Vancouver can break with national policy on issues such as the Olympics.

But freedom does not guarantee success. The Polish cities of Warsaw and Łódź have considerable freedom, perhaps as much freedom as Essen and Bochum in Germany. Yet they have had much less success in regeneration. Ability, as well as responsibility, is necessary for success. That in turn requires a depth of knowledge about regeneration and development that is not easy to create. Freedom, as ever, is not sufficient: the national state must step out of the way, but the local area also needs a high level of human capital to be able to take advantage of the freedoms that are offered. Here Warsaw and Łódź suffer very badly. Since the Second World War these cities were part of a highly centralised system, in which local authorities were not required, expected, or encouraged to think for themselves. In contrast Germany's federal system expects and almost requires local areas to be different to each other, to look for fresh ideas, to think. They have the experience and the expertise that Warsaw and Łódź lack.

The interplay between freedom and ability is important. While freedom can release but not create ability, ability can create freedom because it makes it easier for those in control to let go. Sir Michael Barber, the founding head of the Prime Minister's Delivery Unit, recently wrote: "Power is not a zero-sum – enhancing crucial relationships builds the capacity to get things done."[9] Here Amsterdam stands out. It co-operated with other Randstad cities, such as The Hague and Rotterdam, to create a regional force that could tackle issues such as regional transport that no individual city could do on its own. Amsterdam is also notable for engaging with important community actors, such as housing associations, in order to ensure that all parties involved in regeneration are pursuing compatible policies. Both strategies have given Amsterdam more decision-making and financial power in reality than it appears to have on paper and both have aided regeneration.

We therefore have two dimensions by which to judge a city's ability to regenerate: whether it has the ability, and whether it

9 Barber M, "Delivery is all about 'how?' not 'what?'", *Parliamentary Brief*, 11(9) pp18-20, 2008

Figure 1: Urban Policy Typologies – A Poultry Attempt

Freedom	Ability: LOW	Ability: HIGH
LOW	*Headless Chicken* Warsaw, Łódź	*Free-range chicken* Ruhr, Hong Kong
HIGH	*Cages Hens* UK	*Cockerel* Vancouver, Amsterdam

has the freedom to use those abilities. These are set out in Figure 1, which constructs a four-part matrix, each of which is characterised as a type of poultry. Cities and regions with both freedom and ability are represented as *free-range chickens*. They have a good quality of life, and can cope with changes in their conditions as well as is possible, as both Hong Kong and the Ruhr areas show. In contrast, ability without freedoms makes for *cockerel* cities. Such places have good ideas and innovative policy solutions, but lack the right to implement them. Nevertheless, their ability to crow loudly, repeatedly and at length can create freedoms, and those with power find it hard to resist. Cockerel cities such as Amsterdam and Vancouver, therefore, have more freedoms in reality than they appear to have on paper, although those freedoms are conditional and can be reduced or curtailed by the centre.

Freedom without ability is a frustrating scenario, because that freedom cannot be used effectively. We characterise this, perhaps harshly, as the *headless chicken* quadrant, in which an area tries its hardest, but without sufficient expertise it can seem to run around in circles, with achievements coming about by chance. We place the Polish cities of Warsaw and Łódź in this quadrant.

Finally, there are those towns without ability or freedom, the caged hens of the regeneration world. These towns are entirely at the mercy of others. They do not have the right to make their own policy, nor it is clear that they would be successful were they to be given those rights. Knowledge of their own limitations leads to dependency, so that rather than calling for more decision-making powers, rather than setting out their own agenda in the way of Amsterdam and Vancouver, they are content to be the handmaidens of central government, waiting to be told what policies they should implement. All too often Britain's local councils fit into this category, although it is certainly possible to argue that London is growing into cockerel status.

4

Reactions to our work

Two ministers, Ian McCartney, MP for Makerfield and until September 2007 Minister of State for Trade, Investment and Foreign Affairs[10] and John Healey, MP for Wentworth and Minister of State for Department for Communities and Local Government since June 2007, responded to *Cities limited*. We mention their reactions here because we think they illustrate the sort of thinking that lies behind much of current urban regeneration policy.

Ian McCartney made his position very clear in an interview with *Wigan Today* on 9th November 2007.[11] He made the bold claim that "This Government and the council have rebuilt Wigan brick by brick over the past decade," before going on to add that "we certainly don't need people based 300 miles away running down the town in this fashion." He stated that the Government had invested £130 million in refurbishing "every one" of Wigan's council houses, that schools were being rebuilt and that local town centres were being refurbished.

Two aspects of this story stand out. First, McCartney did not challenge either the arguments or the data put forward in *Cities limited*. We did not claim that the Government had failed to invest in Wigan's council housing or that town centres had not been refurbished – although we suspect his claim that Wigan has been rebuilt "brick by brick" to be an exaggeration. What we claimed was that *despite* very high levels of investment towns such as Wigan were falling behind both the national average and the fortunes of successful towns such as Swindon and Peterborough. Our claim is not that the Government has not spent enough, but rather that its spending has not delivered the outcomes we hoped for: good jobs, and plenty of them, so that the people of Wigan are able to enjoy the standard of living of the average person in Britain.

The second interesting aspect of McCartney's intervention is the response of people in Wigan. This story was posted on the website of his local paper, allowing local people the chance to respond. Seven people did so, and not one supported McCartney's position. A former firefighter wrote: "Perhaps Ian McCartney should read the report and then and only then explain why the report is wrong instead of doing the usual politician's trick of making off-the-cuff statements and expecting people to believe him because he is an MP." Mark Conroy described McCartney's reaction as "Typical of New Labour" while R. Johnson wrote: "The report is right," and an anonymous writer noted that "a lot of the younger generation in Wigan have no hope for the future."

The most detailed comments came from C. Rowley, "a Wiganer born and bred" who has lived in Hindley for the last 38 years, and who wrote: "I was disappointed and concerned having read Ian McCartney's comments." Rowley offered to take McCartney to Hindley's Market Street, "with its charming charismatic graffiti, daubed and derelict high street buildings, an area that has been in decline for the past thirty years". Then, he said, McCartney could "explain exactly where it has been rebuilt brick by brick". Rowley

10 Since Sept 2007 Commissioner General for the Shanghai World Expo 2010 and the Prime Minister's personal representative on the Socialist International Committee

11 Bean R, "MP fury at 'poorer Wigan' report", *Wigan Today*, 11th November 2007, see www.wigantoday.net/wigannews/MP-fury-at-39poorer-Wigan39.3460842.jp

concludes that were McCartney to visit Hindley, "and take a good hard honest look, on reflection he may then understand why Wigan as a whole cannot climb out of the doldrums and attract economic growth."

John Healey, the Minister for Local Government, responded to *Cities limited* immediately on its publication. Although acknowledging that "deep-rooted pockets of deprivation exist", he said: "We totally reject these claims." Again, he did not engage with our findings, but instead defended the economic effects of regeneration policy by noting that the coalfields programme had created 16,000 jobs since 1996. We do not believe, however, that the best way to analyse the success or otherwise of urban regeneration programmes is to look at outcomes, programme by programme. We stand by our approach of looking at the effects of regeneration policy on areas as a whole. After all, for people living in those areas, it is the aggregate position that matters.

Even when we look at regeneration on a programme by programme basis, the success of initiatives like the coalfields regeneration programme is difficult to establish. Mr Healey stated that it has generated 16,000 jobs since 1996. Clearly for those 16,000 people the programme was a success. It would be wrong to deny that the programme had had some successful outcomes, although it is surely the case that some of those people, perhaps a substantial proportion, would have got work without the programme, and likely that some who got work did so at the expense of other local people. But even if we take the 16,000 figure as a fair reflection of the policy's outcome, we need to ask whether 16,000 is a large number. This policy cost £379 million, covered 107 different places and ran for more than ten years. Simply dividing the number of jobs created by the number of places covered and the number of years for which the programme ran tells us that the coalfields regeneration programme – hailed by the minister as evidence of the success of regeneration – created 16 jobs per community per year.[12] If one job every three weeks is success, we cannot imagine the minister's definition of failure.

" Even when we look at regeneration on a programme by programme basis, the success of initiatives like the coalfields regeneration programme is difficult to establish "

There are signs that the Government's thinking about urban regeneration has become more thoughtful recently. Stephen Timms, then the Minister of State for Competitiveness at the Department for Business, Enterprise and Regulatory Reform set out a new way of looking at these issues in a recent speech to the Fabian Society's city, business and politics network seminar.[13] He argued that we "need to move on from this sterile 'North/South divide' debate", and look instead at London's exceptionalism. He noted: "London stands out", it "has been an extraordinarily successful world city over the past decade". His conception of London is spot on: "London's success accentuates the differences with the UK's regional economies – but it provides a powerful driver for them too. London isn't a rival; it's an ally for regional growth. The success of London spills over to neighbouring regions, which benefit from easy access to a large market, from diffusion of knowledge and best practice."

The analysis is correct and the speech announced significant and welcome funding for research into spatial economics. But the speech can be read two ways. The minister was right that "It makes no sense to judge the success of the English regions simply by comparing them with London". Instead he argued for regional compar-

12 We take into account the time period for which each place was covered by the programme

13 Timms S, (former Minister of State for Competitiveness), *Strengthening Regional Economies*, Fabian City, Business and Politics Network seminar, Fabian Society, London, 14th January 2008, see www.berr.gov.uk/pressroom/Speeches/page43638.html

isons: "So, for example, from 1995 to 2004, growth in South Yorkshire was almost double that of Düsseldorf in Germany or Lorraine in France. That is the kind of comparison we need to draw, to understand properly the effectiveness of regional policy." We strongly support the idea of learning about what works and what does not work by looking at experience outside the UK. The belief that we could learn from others underpinned the second in this series of publications, *Success and the city: learning from international urban policies*.

But there is a big difference between arguing on the one hand as we do that we can draw qualitative lessons, ex post, from foreign experience and believing on the other that the *ex post* construction of a foreign sample represents a legitimate method by which to assess British town and regions, or British policymaking. Unless Britain is bottom of the league table it will always be possible ex post to find places that have done worse than any particular British town or region. Finding a town or region elsewhere in the world that has performed worse than a place in Britain does not mean that the British town has performed well, still less that policy has been successful. The minister's phraseology allows almost any outcome to be defined as a success, and that cannot be a good foundation for evidence-based policymaking. If we are to use the performance of others as a yardstick of our own performance, we need to specify the comparator towns and regions *ex ante* not *ex post*, otherwise we can simply move the goalposts to wherever our ball happens to end up.

Nevertheless, the analysis in the speech is powerful, and, as we argue in more detail below, it is right to see London as unique, and it is right to argue that London's success spills over into neighbouring regions. But for people in regions that do not neighbour London this has an obvious and unavoidable implication: if you want to share in London's success, you may have to move to London, or at least to one of its neighbouring regions. As the old phrase goes, if you can't beat 'em, join 'em. We shall argue that this is the correct conclusion, and we hope that the minister's speech indicates that this is the way that government thinking is developing.

5

Things will only get worse

The trajectory that we have outlined so far is not a hopeful one for the many people living in those towns and cities targeted by Britain's urban regeneration programmes. There are four reasons to think that things are likely to get worse, and not better, in the future.

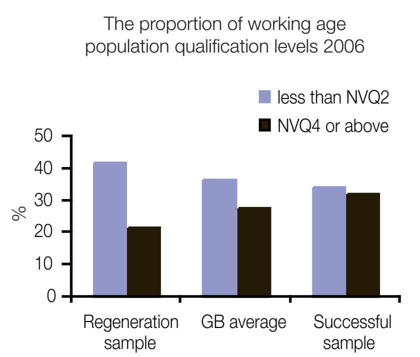
Economic geography

We have already set out in *Cities limited* how economic geography has changed since many of these towns were created in the 19th century. There is no reason to think that the changes we have identified have finished, much less been reversed. London's international status as a premier financial centre is unlikely to be usurped by any other place in Britain.[14] The increasing role of the service sector will favour those towns that are already oriented towards services. Agglomeration effects will continue to grow, boosting firms located in big cities, wherever they may be. Firms outside those areas then have a choice: to remain where they are, thus missing out and risking bankruptcy, or to move to the thriving cities.

The changing skills mix

The last 50 years have been a period in which the value of skills, particularly white collar as opposed to manual skills, has increased enormously. It used to be the case that people could leave school at 16 and get a job that would give them a decent wage for life. That is increasingly unlikely these days and will prove to be even less likely in the future.[15] This is a real problem for our regeneration towns because they suffer from a much less attractive skills mix than London. That is not an entirely new phenomenon: London has always attracted a large proportion of the highly skilled. What is new is the scale of the income differentials that this induces. There was a time when the educational qualifications associated with a town did not matter that much for its income levels, but that time has past.

Figure 2: Educational attainment



Notes: NVQ2 is five GCSE grades A*-C or equivalent, NVQ4 is undergraduate degree or equivalent

People in our urban policy town sample were less likely to be highly qualified, and, as we reported in *Cities limited*, school results were markedly worse in our regeneration town sample. Students from these places were 8 per cent less likely to gain five good GCSEs than their equivalents from our prosperous towns. So each town does

14 *World's Top 10 Economic Centers, The 2007 List*, Standard & Poor's, December 2007, New York

15 Beaven R, Bosworth D, Lewney R and Wilson R, *Alternative Skills Scenarios to 2020 for the UK Economy: A report for the Sector Skills Development Agency, as a contribution to the Leitch Review of Skills*, HM Treasury, 2005 see www.hm-treasury.gov.uk/media/8/8/alternative_skills_scenarios_execsummary.pdf

not start out with an equally well-qualified set of 16 year olds every year. We therefore have a problem: our less successful towns have a lower skills base among the existing workforce, their students are achieving lower grades in schools, and many of their best students leave for London after getting a degree. In contrast, successful areas start with a higher skills base among their existing workforce, their students are achieving higher grades at school, and London in particular attracts many of the best students from other parts of the country, and indeed, from other parts of the world, after graduation. Given this divergence in human capital it is almost impossible to imagine any kind of overall economic convergence.[16]

Politics

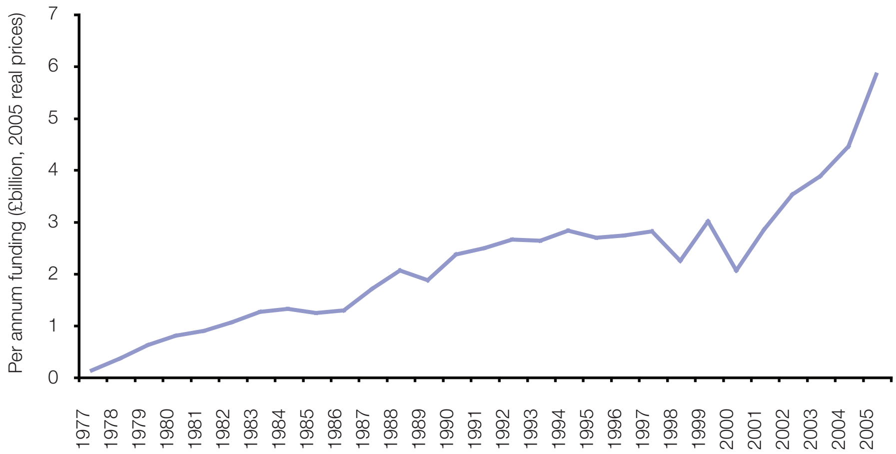
For the last decade British politics has been dominated by ministers who represent poorer urban areas. Of the current Cabinet – Jack Straw represents Blackburn; David Miliband South Shields, Tyne and Wear; Jacqui Smith Redditch; Harriet Harman Camberwell and Peckham; Hazel Blears Salford; Andrew Burnham Leigh; Hilary Benn Leeds Central; Alan Johnson Hull West and Hessle; Ed Balls Normanton, West Yorkshire; and Yvette Cooper Pontefract and Castleford.[17] Inevitably they are committed to urban regeneration and it should come as no surprise that spending on urban renewal has increased in the last few years.

Figure 3 shows, there has recently been a step change in funding, after a decade of stability. The rise in spending under the Labour Government is comparable with the rise under the Tories in the late 1980s. But while the Tories were responding to an obvious rise in urban problems caused by a sharply changing industrial structure, Labour spent more simply because it chose to. Spending from choice rather than necessity is much easier to reverse.

16 Juhn C, Murphy K and Pierce B, "Wage inequality and the rise in returns to skill", *Journal of Political Economy*, 101(3): 410-42, 1993; and Autor D, Katz L and Kearney S, "Trends in US Wage Inequality: Revising the Revisionists", *Review of Economics and Statistics*, 90(2): 300-323, 2008

17 Full list of Cabinet members as of 24th January 2008, *Labour Party*, 30th April 2008 see www.labour.org.uk/members_of_the_cabinet

Figure 3 - Annual Urban Regeneration Funding, 1977-2005



Note: Data based on government spending with explicit urban regeneration objectives and excludes transport, housing and industrial policies unless part of a regeneration programme. Data include: Urban Programme, Urban Development Corporations (including Docklands Light Railway and Jubilee Line Extension), Enterprise Zones, Urban Development Grant, Urban Regeneration Grant, Derelict Land Grant, City Grant, Estate Action, Inner City Task Force, City Action Teams, English Partnerships, Housing Action Trusts, City Challenge, Coalfields Areas Fund, Objective 1 and URBAN II European Funding, Single Regeneration Budget Challenge Fund, Manchester Olympic/Commonwealth Bids, Coalfields Regeneration Trust, Coalfields Enterprise Fund, Regional Development Agencies, New Deal for Communities, Neighbourhood Support Fund, Neighbourhood Renewal Fund, Housing Market Renewal Pathfinder, Sustainable Communities Plan (without housing costs), Local Environment/Liveability Fund, Community Empowerment Fund, Thames Gateway, London 2012 Olympics. We gratefully acknowledge the support of Dr Mark Pennington, Richard Wellings, Prof Peter Roberts Jim Gill and Prof Michael Parkinson in compiling and reviewing these statistics. The responsibility for any errors and omissions are the authors alone however.

Britain will not always have a Cabinet drawn from poorer inner city areas. It is of course possible that a Cabinet who represent leafy shire towns in Britain's more affluent counties will prove to be as generous towards inner cities, but such an outcome cannot be assumed. To some extent politicians will always, and perhaps should always, be in line with their constituencies. It seems most unlikely that levels of urban regeneration funding are hot topics in Witney or Tatton.

All opposition parties need to distinguish themselves from incumbent governments. They need to offer a different set of priorities if they are to win over the electorate because offering more of the same does not create a unique selling point. A different set of priorities offered by an opposition party may well involve lower levels of spending on urban regeneration funding, with inevitable consequences for the fortunes of these towns.

Money

The Government's finances are in a parlous state. Asked in a *Financial Times* survey in January whether the public finances are in reasonable shape 95 per cent of the economists polled who gave unambiguous answers said No.[18] Their comments included: "The public finances are in very poor shape"; "in an increasingly dire state"; "a shocking state"; "a parlous state"; and an "awful shape".[19] When governments run out of money, something has to give. The Government tried to save money recently by phasing in the annual pay award given to the police. This will have no long-term effect on government spending, since the police will receive their full pay rise by the end of the year, but it provides a one-off saving of £40m this year.[20]

As the government found out, saving money by staging pay awards is politically costly: the story dominated the headlines. The same would be true for the salaries of nurses, doctors and teachers. And as for trying to cut the number of police, nurses, doctors or teachers, well, that way lies certain electoral disaster.

Regeneration funding, in contrast, is project and programme based. Individual projects and programmes come and go, old ones are phased out, and new ones come along. Sometimes the new ones are better funded than the old ones, sometimes they are not. Importantly, the political cost of funding replacement programmes less generously is not that high. Did anyone outside the specialist press notice whether the Housing Market Renewal Pathfinders were better or worse funded than the Housing Investment Programme they replaced? Or whether the Crime Reduction Programme cost the government more or less money than the Safer Communities Initiative? Did anyone notice when the Capital Modernisation Fund (Small Retailers) ended? Whether or not these schemes work is not the point here. The point is instead the more brutal one of political reality: when you run out of money you want to cut things that the public will not notice, or at least you can disguise by announcing a similar programme that proves on closer inspection to be (much) less well-funded. If the number of nurses employed goes down by even one that will be noticed. If the Capital Modernisation Fund (Small Retailers) is not replaced, no one notices. That makes the Capital Modernisation Fund (Small Retailers) and many, many other schemes – including much larger schemes – very vulnerable to any downturn in government finance, even when the Government is genuinely committed to urban regeneration, and even if it believes that schemes like this work.

For these four reasons, 1997 to 2008 are likely to be seen as the high watermark in British urban renewal spending. No matter which party (or parties) wins the next election, the nation's fiscal position means that there is little room for manoeuvre, little

18 Weale M, NIESR, "Are the public finances in reasonable shape? If not, what needs to be done in 2008?", Q5, Economists' Survey: the results, *Financial Times*, January 1st 2008, see www.ft.com/cms/s/0/6d80bacc-b894-11dc-893b-0000779fd2ac.html

19 Ibid, Comments from Coynes J, Capital Economics; Spencer P, Ernst & Young Item Club; McCafferty I, CBI Chief Economic Adviser; Lewis S, Insinger Beaufort, respectively

20 Parker G, "Brown charts collision course", *Financial Times*, April 3rd 2008, see www.ft.com/cms/s/0/7fe6fb66-0107-11dd-a0c5-000077b07658.html

room for funding innovative ideas and certainly little room for funding projects that do not have obvious, immediate resonance with large swathes of voters.

This is turn is very bad news for our urban regeneration towns. We have been quite clear that urban regeneration spending has not worked, in the sense that these towns are not regenerated. But we have been equally clear that those policies have raised the standards of living in these towns compared with what they would have been without them. It is, after all, hard to spend billions of pounds without achieving anything. So when those billions dry up – as some of them will – towns that are already slipping gradually further behind the UK average will not simply continue to slip behind at their current rate, but will start to slip behind more rapidly.

This is exactly what happened in the mid-1990s, the last time that government finances were heavily constrained by a tough fiscal environment. In that period GVA in our regeneration towns fell relative to the national average twice as fast as in the fiscally relaxed late 1990s. The same was true of personal incomes. When money is readily available, and regeneration funding is high, our regeneration towns slip gradually backwards. But when money is tight and regeneration funding is under pressure, they fall much further behind more quickly. Even when the good times return, the last ten years demonstrate that the period of rapid decline is not reversed or even halted. When these towns decline relative to the national average, government is powerless to reverse that decline later.

6

We cannot accept this

Current policies mean that poorer towns will continue to get poorer relative to the rest of the country. When the national economy is doing well, and money for regeneration is plentiful, they will get gradually poorer. When the national economy is doing badly, and money for regeneration is hard to come by, they will get poorer much more quickly.

That is not to say, of course, that they will get poorer in absolute terms, for they will not: economic growth reaches all parts of the national economy to some extent. But they will inexorably diverge from the rest of the country. Children growing up in these towns will not have the same experiences – and perhaps not even the same expectations and aspirations – as those growing up in places that are more typical of Britain.

We are not talking about divergence from a handful of super-rich places – that has always existed, and always will. We are talking about growing divergence from places in Britain that are simply average. Adults looking for work will not have the same opportunities as those who, with the same skills and determination, are simply lucky enough to be in a different part of our country. Geographical circumstance means that life on benefits, whether in work, or out of work, will be more common.

That cannot be right, and we should not accept it. Nor is there any need to accept it, for while there are no easy answers, there are answers grounded in theory and empirical evidence from Britain and abroad which point us to solutions that will work. That must be our agenda.

7

What can be done?

Accept the reality of economic geography

A successful regeneration policy has to start by accepting the realities of economic geography, for it is at least as hard to buck geography as it is to buck the market. Spatial economics, the study of the economics of geographical dispersion and agglomeration, advances strong theoretical arguments, and empirical evidence for the existence of optimal locations for economic activity and optimal sizes for cities, both of which vary in time and place. It also demonstrates how planners can use price signals to guide their decisions so that a country ends up in a position closer to the optimal level. A country that uses such information effectively will be richer than one that does not. We look first at what economic geography can teach us about optimal locations, before turning to optimal city sizes.

The existence of optimal locations for economic activity is at one level very obvious: it is easy to sell sandwiches in a busy area with lots of workers or tourists looking for something to eat, just as it is easy to sell beach mats at the beach. What is perhaps less obvious is that there are optimal locations for firms that at first sight might not be expected to have an optimal location. In fact all firms have an optimal location. They might want to be near workers with the relevant skills and aptitudes. Many want to be near their customers, either directly or via good transport links. Others need to be able to export the product that they make or to import components. Finally, firms prefer to locate next to other firms in the same industry. Partly this is so that they can attract staff from their rivals, but partly it is because knowledge spillovers within a cluster of firms make them all more competitive. For all these reasons many firms prefer to be in or near major centres of population, and to be well connected to other centres of population. That gives them access both to staff, to customers and to knowledge.

Today Britain trades with Europe more than ever before. This gives the South East an advantage. Aviation has become more important over time, for both goods transport and passenger travel, so locations near airports, particularly airports that offer a wide range of destinations, have become more attractive, again favouring the South East. Finally, Britain has become a road-based economy, favouring places in the middle of Britain that are well connected to motorway networks. Some disadvantages of geography would be prohibitively expensive to overcome. It would be possible, for example, for the Government to build an airport next to Hull, and subsidise flights to and from Hull to ensure that it is as well-connected as London. But such a policy would be economic as well as environmental folly. We have to accept that some locations make more sense than others and that, although infrastructure can be improved, there are places that geographical reality dictates will never be well-connected.

That does not mean such places are doomed or that they should be abolished. But it does mean that the only way they will attract jobs is by offering a lower cost of doing business in compensation for their lower connectability. This happens to some extent already: rents are lower, for example. But rents make up only a small proportion of total costs and differences in regional employment rates and regional wages show us that lower rents in less well-connected places are insufficient to ensure high levels of employment. In reality, the only cost of production that accounts for a sufficiently large share of total costs, and which can vary place by place, is labour costs. As a result, the only way towns and cities that are less well connected, and which the realities of physical geography dictate will remain less well-connected, can compete to attract firms is to accept lower wages.

That is a brutal message, but it is an honest one. When something is true, nothing can be gained by hiding it. The message for people living in cities that are less well-connected is simple and apparently bleak: if you remain where you are, then your chances of being unemployed are higher and your wages will be lower than if you move to a place that is better located for the modern economy. It is worth being clear about the different impact of these two effects. Skilled workers are not unemployed in large numbers anywhere in Britain, for them the issue is one of wages. In places that are economically less well-located they may find that the opportunities are not as well-matched to their skills as they would be in a more successful region, and that wages are generally lower. As economists would say, the skilled labour market clears, but it does so at a lower wage. For unskilled workers the issue is one of unemployment, because unemployment benefits and minimum wages place a floor on wages. As a result we find that unemployment of those with low or no skills is substantially higher in less-well-connected cities. This is a market that does not clear and some people who would genuinely like to work remain unemployed.

This matters because it tells us that those who are worst affected by poor economic locations are those with low-skill levels. Those with higher skills have a greater ability to move because their wages are sufficient to allow them to move to more prosperous regions. Those with higher skills are compensated for their lower wages by a lower cost of living: housing, in particular, is much cheaper in our regeneration cities than either in Britain as a whole, or in our most successful towns. If those with skills can find a reasonable job, their standard of living will be only a little lower. If it were much lower, then they would move. But for the low skilled the story is not the same because unemployment is much more likely in areas that are not well connected, and those with low skills find it hardest to move. Unemployment is not only a source of poverty; it is also a source of unhappiness over and above the unhappiness that comes from poverty. The evidence shows that those who want to work do not get used to unemployment, on the contrary, the pain of unemployment remains real over time.[21]

That some areas are innately hard to connect is not contentious. The difficulty of connecting the middle of the Lake District, or the Highlands of Scotland explains why so few people live there: these places, which are outstandingly beautiful, are not good locations for business and never have been. Those who choose to live there do so because they offer other attractions.

What may be contentious is to state that some of Britain's existing towns and cities are poorly located for modern business. This stems from two interlocking factors: that Britain urbanised first and that the optimal location for business has changed more in Britain than elsewhere. This combination means that our economic geography is now uniquely poor.

As we noted in *Cities limited* Britain is exceptional in the extent to which it

21 Layard R, *Happiness: Lessons from a New Science*, Penguin, London, 2005, p 67

urbanised in the 19th century. As early as 1841 about half the British population lived in towns, rising to around four-fifths by 1914, making Britain by far and away the most urbanised country in Europe.[22] Britain is therefore unique in the world in having the location of so much of its housing stock determined more than a century ago. This would not matter if the determinants of optimal city locations had remained the same, but they have not. The 19th-century British economy was based on manufacturing, sea-borne exports and coal, and so the free market built our cities on coalfields near ports. Liverpool was the main port of entry from America, the perfect place for literally billions of pounds of raw cotton to arrive from the American South every year, ready to feed the mills of Manchester and its environs, which were in turn fed by coal, brought in by canal. Both Liverpool and Manchester grew dramatically in the 19th century, rising from significant towns of around 100,000 to great urban metropolises of 600,000 each. They were in the right place, at the right time, and they grew accordingly.

> “When transport costs fall, cities work better, since it is easier to bring both people and the things that they need together”

The factors that meant that they were in the right place then no longer hold true, because the 21st century does not look like the 19th century. Firms do not burn their own coal anymore, and in any case the cost of transporting coal has fallen dramatically relative to the value of output. Electricity and gas are moved easily and cheaply across the country. With the exception of a handful of extremely energy-intensive industries such as aluminium production, the location of energy sources is no longer an important determinant of the location of firms.

Nor is sea-shipping as important now as it once was, and even within sea-ports the European-oriented ports of Felixstowe and Dover have risen in importance relative to those of say Liverpool, particularly after Britain joined the EU. In 1972 Liverpool was responsible for more of Britain’s merchandise exports than Dover and Felixstowe combined. Twenty years later the positions had been dramatically reversed, and Dover and Felixstowe accounted for around ten times as many of Britain’s exports as Liverpool. Liverpool was once the closest place in Britain to the United States, today Heathrow has that position. It offers more flights, to more places, at more times than all of the Northern airports combined, and competition pressures mean that fares are usually cheaper as well.

More generally, the replacement of sea-borne trade with truck-born trade means that coastal towns have suffered relative to those on the main motorway network. Places such as Corby and Daventry would have made little sense as employment centres in the 19th century, yet today they make excellent economic sense. In contrast, while places like Hull and Liverpool were great economic locations in an era of sea-based transport, they are much less economically attractive locations from which to do business today.

Finally the North has been unlucky. Liverpool was once a booming city, made rich on the cotton trade. The same was true for place like Oldham and Bolton, the cotton capitals of the world. They rivalled London, the financial capital of the world. But although London remains one of the great financial centres, Liverpool, Oldham and Bolton are not booming, because the cotton industry proved to have no future in Britain. It is no fault of Lancashire that cotton proved to be a less secure basis for long-term prosperity than finance. The North was simply less lucky than the South in that its source of economic power disap-

22 Leunig T and Swaffield J, *Cities limited*, p 14, Policy Exchange, London, 2007

peared for exogenous reasons – competition from much lower wage countries – about which it could do nothing. And it was doubly unlucky because when the time came to replace these industries, the North was no longer the desirable economic location it had once been.

There are thus geographical reasons why people in the South are generally richer than people in the North. Southern productivity is inherently higher than northern productivity not because southerners are more quick witted, harder working or intrinsically smarter, but because southerners have the advantage of being well-connected. Connectivity matters and it raises wages. This means that the North-South divide is not a transient problem that reflects a short-lived hiatus as manufacturing declines and service sector economies take its place. Nor does it reflect a failure of government policy to do what is needed. Rather, it is evidence that the North, the power house of the industrial revolution, is now a less desirable location for business for reasons that are geographical and entirely outside its control or that of central and local government.

The phrase "North and South" is a convenient shorthand, but of course there are places in the North of England that are large enough to have reasonable levels of market potential. Here the successful cities of Manchester and Leeds stand out, and we discuss them in greater depth later. Equally, there are places such as Hastings in the South that are not at all well connected, even though they appear to be close to London and European markets. Again, we look at places like these in more detail later.

The second main finding of spatial economics is that city size matters. This has always been true, right back through the industrial revolution, through medieval times to the Romans and no doubt before. When people meet each other they learn from each other, they get ideas of new things to do and new ways to do things they already do. Being closer to their customers, they have a stronger sense of the market and what customers want. Schools and universities, and their students, are aware of what local employers are after, and can think about matching their own skills and potential interests to those demands. In short, employability increases, productivity rises and innovation is more common.

Of course, larger cities have their downsides: they are more expensive and congested. Initially, as a city grows, congestion does not increase and the cost of living does not rise very much; the gain from a larger city outweighs the costs. But later these agglomeration economies may cease to grow, particularly if a single-industry firm is dominant. Additional people will not offer much benefit in knowledge spillovers, but the cost of congestion continues to rise and, if gridlock becomes more common, to rise rapidly. At that point the city stops growing: people no longer want to move there because the gains from higher wages are outweighed by higher costs and greater congestion. There is thus an optimal city size: big enough to benefit from the economies of scale, small enough that congestion and commuting costs are not too high.

There are five reasons to believe that optimal city sizes have grown in recent years. First, domestic and international transport costs have fallen. Secondly, services have become more important. Thirdly, the economy has become more skill intensive. Fourthly, information communications technology (ICT) has allowed the production process to be split more easily. Fifthly, there has been a big rise in dual-career couples.

When transport costs fall, cities work better, since it is easier to bring both people and the things that they need together. We can see this with a simple example: central London, like central business districts everywhere, would collapse if people had to walk to work since there would not be room for all those who work there to live within walking distance, nor could they readily be supplied with foodstuffs. Big cities need effective transport.

That the service sector has grown in the last 50 years is well known. What is perhaps less well known is that service sector firms gain more from agglomeration economies than manufacturing firms. This is because manufacturing firms do not seem to benefit from an increase in the size of the manufacturing sector per se, but only from a rise in the number of firms in their own industry.[23] Such benefits are known as "localisation" economies. A cotton manufacturer will see productivity rise when other cotton manufacturers move to the town, but not when a firm producing railway carriages arrives. This leads to single-industry towns – indeed, cotton towns were even specialised by market segment, with weaving towns in Lancashire's north and spinning towns in Lancashire's south, and even within this, fine spinning concentrated in Bolton, and the spinning of coarser yarns in Oldham. There was no gain to fine yarn spinners from being near either coarse yarn spinners or weavers, indeed since locating in the same place would have increased congestion, it would have been harmful. As a result, each specialism located in separate, medium-size towns. The largest Lancashire towns – Liverpool and Manchester – were as much merchant service towns as manufacturing centres, again suggesting that a concentration on service sector firms leads to larger cities.

In contrast there is much evidence that service sector firms do gain from the presence of other unrelated service sector firms in the same area. This seems to reflect in part a greater reliance on transferable skills. Universities and financial firms both employ IT specialists, HR managers, and so on, and insofar as productivity in these jobs rises with the numbers employed locally, the university will benefit from locating near the financial firm and vice versa. These are termed "urbanisation" economies, and are larger than single-industry "localisation" economies.[24]

The improvement in skill levels leads to a change in the nature of work which raises the level of potential agglomeration economies. Once a large proportion of the workforce was engaged in work whose nature was precisely set down by management – such as Fordist production lines – and for which discretion, knowledge and learning were very limited. Today such work is less common and workers have more opportunities to show initiative. Managers and workers can act on workplace discussions and so it makes more sense than ever to work near other people.

The role of ICT in agglomeration economies is much misunderstood. There was a time in which people thought that a combination of cheap telephones and broadband would mean that we could and would all work from home. Today the cost of working from home is far, far cheaper than the cost of commuting for many people and yet few people do it. The reason is that in many jobs agglomeration economies are too large to resist. Workers know, and their firms know, that they are more productive when at work.[25] This is not because they slack at home, but rather that when in work they talk to their colleagues, formally and informally; they sense the way their firm and industry is moving, in a way that is simply not possible from home.

In fact, far from leading to dispersion, ICT leads to larger service sector cities. In the pre-ICT era firms de facto had to locate all elements of production together.[26] A car firm, for example, would design, engineer and build the car in the same place, and that place would also have head office functions such as accounting, per-

23 Henderson J, "The Sizes and Types of Cities", *The American Economic Review*, 64(4): 640-56, 1974; Henderson J, *Urban Development: Theory, Fact and Illusion*, Oxford University Press, 1988

24 Rosenthal S and Strange W, "Evidence on the Nature and Sources of Agglomeration Economies", in Henderson J and *Thisse J-F (Eds) Handbook of Urban and Regional Economics, volume 4: Cities and Geography*, Elsevier Science, 2004

25 Boden D and Molotch H, "The Compulsion of Proximity", in Friedland R and Boden D (Eds), *NowHere: Space, Time and Modernity*, University of California Press, 1994; Ormerod P, Cook W and Rosewell B, *Why Distance Doesn't Die – Agglomeration and its benefits*, GLA Economics, Working Paper 17, June 2006

26 Linden G et al, "Who Captures Value in a Global Innovation System? The case of Apple's ipod", Personal Computing Industry Center, June 2007

sonnel, etc. Since car manufacturing was the dominant part of the process, the design, engineering, accounting parts were located in the place that was optimal for manufacturing. Today ICT means that these different elements can be located in different places. We find that the non-manufacturing elements are no longer located with the manufacturing elements, but are rather located in the same place as others doing the same type of work. The newly launched Nissan Qashqai, for example, was designed at Nissan's own design studios near Paddington, engineered in Nissan's own technical laboratories in Cranfield, and then built in Nissan's assembly plant in Sunderland. The accounts are done in Budapest. Nissan chooses to locate its design studio in London because London is the centre of the British car design industry. Ford has a design studio there as well. It is a place where it is easy to hire talented car designers, and where they can rub shoulders with other talented car designers, and become great car designers. The same is true for car engineering in Cranfield, Britain's centre for car engineering. The result is that the manufacturing cities are smaller than they would otherwise have been because they no longer contain their associated non-manufacturing activities. And the service sector cities have grown further because they attracted not only independent firms, but also the service sector parts of manufacturing firms that no longer have to locate alongside their manufacturing wings. The optimal size of service cities will grow and manufacturing cities will shrink. Furthermore, many of the jobs lost by the manufacturing cities are the higher-skilled, better paid, positions.

Finally, the growth of the dual-career household, the product of a rising proportion of people going to university, means that more households than ever seek to live in a city that offers career opportunities to partners who may be in very different professions. Large cities are particularly attractive to dual-career couples. Notice that Britain is still at a very early stage in this process, since the rise in the number of people attending university is a relatively recent phenomenon and will take 40 years to reach its full effect.

There are therefore a very large range of factors – some of them ongoing – that mean that the optimal size of cities has increased over time, perhaps considerably.

It is worth commenting a little on luck and what economists call "path-dependency" (what everyone else calls the chicken-and-egg syndrome). There was a time when Hollywood was just another place. But then it became for a host of reasons the global centre for film-making. It is now easier to make films in Hollywood than elsewhere because it offers all the ingredients necessary to make films. There is nothing intrinsically favourable about Hollywood, but once established as the film capital of the world, it is hard for other areas to compete with it in film-making. The same was true a century ago for the Lancashire cotton industry, then a highly skilled sector. Lancashire spinners could spin cotton like no others. For a century no one else could compete. But ultimately cotton is a sector in which costs are paramount; film-making is a sector in which quality is paramount. Cotton could not survive in high-wage Lancashire, film-making can and does survive in high-wage California.

It would be hard today for another area to become the film capital of the Western world, just as it would have been hard a century ago for another area in Britain to challenge the cotton capital of the world. A well-meaning politician could not have moved part of the Lancashire cotton industry to Suffolk, because that would have destroyed the agglomeration economies on which Lancashire's success was founded. The only way in which a Suffolk cotton mill could have competed against those in

Lancashire would have been to pay wages so low that they compensated for the loss of agglomeration economies, in short, wages so low that no one would have wanted to work there. That is why it did not happen.

What was true for the Lancashire cotton industry a century ago is true for the City of London today. That London is Europe's financial centre is partly luck. The original British financiers lived in London rather than Bristol or Liverpool, and the agglomeration economies grew out of that. They have been lucky that Britain has never been on the losing side of a major war, nor has our economy or currency collapsed, nor have governments stifled the City to the point of forcing firms to flee. The industry has had the conditions to succeed and it has worked hard to do so, helped along the way by growing agglomeration economies. Stephen Timms, the former Minister of State for Competitiveness, is right: London is one of a group of successful global cities that can be compared to each other, but which stand above other places in the domestic economy. We cannot, with the best will in the world, move JP Morgan to Blackburn, or Deutsche Bank to Sunderland. We may wish it otherwise, but we know that it will not happen. London is London.

Box 1: Sunderland – a case study of the limits of regeneration

Sunderland lies at the mouth of the River Wear in North East England, 13 miles southeast of Newcastle. Between 1850 and 1950, Sunderland was the "largest shipbuilding town in the world".[27] In 1900 shipbuilding employed over 12,000 men, a third of the town's adult population, and the city built more than a quarter of Britain's ships during the Second World War. But shipbuilding, especially non-military vessels, proved to have little future anywhere in Britain after 1945, and the last Sunderland shipyard closed in 1988. Sunderland is also part of the wider Durham coalfield, which declined at a similar time. Vaux Breweries closed in 1999 after more than 100 years of brewing, and commercial glass making has recently ceased in Sunderland, after more than a century as a major producer.[28]

Sunderland has received much regeneration funding, but the most interesting aspect of the city from the point of view of regeneration is the arrival of the Nissan car plant in 1986.

The plant was created on a 300-hectare, greenfield site on the outskirts of Sunderland, sold to Nissan at agricultural prices. Opened in 1986, it has grown steadily adding engine assembly in 1990, moving to two-model assembly in 1992, three-model in 2000 and four-model in 2006. Nissan recently announced that it would move to three-shift production, meaning that the plant would run 24 hours a day, seven days a week.

After an investment of £2 billion in the last two decades, it is now Britain's biggest car plant by both output and exports, and on any measure is a major success. Once the move to three-shift working is completed, it will directly employ about 5,000 people.[29] Application levels are high when vacancies occur.[30]

Not only does Nissan provide jobs, but it has also attracted other firms to the area. Sunderland City Council reports that there are 240 Nissan suppliers in the area, including major automotive firms such as the French company Valeo and the US firm TRW Automotive. A total of 12,000 people work in the automotive sector.[31]

And yet for all this, Sunderland remains poor. With gross value added per person at 16 per cent below the UK average, it is in the poorer half of our regeneration towns sample. A recent Joseph Rowntree Foundation study found that the majority of the population was poor, and numbers had increased over time.[32]

The sheer scale of the problems that Sunderland confronts despite a success such as Nissan should give us pause for thought. If direct investment of £2 billion, a plant employing 5,000 directly and a further 7,000 indirectly, cannot revitalise the city, we need to ask whether it can reach the national average level of GVA, wages and living standards while remaining its current size.

27 "The History of Shipbuilding in the North East", BBC, 2nd April 2008, see www.bbc.co.uk/nationonfilm/topics/ship-building/background.shtml

28 Clark K, "Final Blow for Glass Factory", *Sunderland Echo*, 28th September 2007, see www.sunderlandecho.com/news/Final-blow-for-glass-factory.3242477.jp

29 1,000 go for Nissan jobs, *Sunderland Echo*, 4th February 2008, see www.sunderlandecho.com/news/1000-go-for-Nissan-jobs.3740559.jp

30 Strike threat at Nissan over pay row, *Sunderland Echo*, 22nd December 2006, see www.sunderlandecho.com/news/Strike-threat-at-Nissan-over.1943503.jp

31 "Invest in Sunderland", Sunderland City Council Business Invest, 2006, see www.investinsunderland.co.uk/inward-sector-auto.asp

32 Dorling D *et al*, op cit

Sunderland suffers from very poor economic geography. It is a long way from most places. It is not somewhere that outsiders consider a desirable place to live. Roy Keane, Sunderland Football Club's manager, commented on the difficulty of attracting good players to the Premiership club despite offering equivalent wages to clubs in the South: "I find it surprising that geography seems to play such a big part … Retire at 35 or 36, you can live wherever you bloody well like – London, Monaco, wherever – and any half-decent footballer will be a multimillionaire anyway. Why is there such a big attraction with London? It would be different if it was Chelsea, Arsenal or maybe Tottenham, but when they go to a smaller club just because it's in London, then it's clearly because of the shops."[33]

In terms of market potential, we have already noted that being on the coast is disadvantageous. Nearby Newcastle is a mixed blessing: it does increase the market potential, but it is also a rival. Indeed, rather like Bradford to Leeds, Sunderland sits in Newcastle's shadow. Although Sunderland is the larger city, Newcastle is the better connected. Newcastle has the M1/A1, the mainline rail route, and the airport. The Tyne and Wear metro is also much more extensive in Newcastle than in Sunderland, and although the metro connects Sunderland directly to the airport, it takes an hour to cover the 16 miles. And Newcastle is more affluent, with GVA 11 per cent above that of Sunderland.

Those who want to paint a more optimistic future will point to recent innovations. For example, Sunderland now has direct trains from London. But there are only three a day, a tenth of the number to nearby Newcastle. And they are much slower. There are not that many people who wish to travel to Sunderland from London, and therefore the train stops at many intermediate stations to pick up additional passengers. The result is that the 08:04 train from London to Sunderland takes three quarters of an hour longer than the equivalent train to nearby Newcastle. It is slower to take the direct train to Sunderland than to take the train to Newcastle, walk to the metro stop, and take the metro to Sunderland. By that time the Newcastle train will have reached Scotland. In terms of connectivity to London, Sunderland is not so much south of Newcastle, as north of Berwick. But in terms of reaching Edinburgh, Sunderland is as far south as Darlington. In short, the city is isolated.

Sunderland has a severe problem with its skills base, particularly compared to nearby Newcastle. This is not a problem with the schools: Sunderland and Newcastle schools perform equally at GCSE level. But local people with skills are more likely to leave Sunderland than Newcastle, and outsiders with skills are more likely to move to Newcastle than to Sunderland. The result is that Newcastle has 75 per cent more people with degree level skills than Sunderland, but Sunderland has 15 per cent more people without any qualifications at all.[34]

Sunderland sits in Newcastle's shadow, and Newcastle's better connectivity and path dependency makes it hard to imagine any way for Sunderland to escape. Indeed, if anything Sunderland has been losing high-skilled private sector employment, as we can see even in Nissan's case. Initially, Nissan Technical Centre Europe was located in Sunderland, but this moved to Cranfield, Bedfordshire, in the 1990s, to the heart of the British motor industry research zone. Nissan's design studios are in London, again, close to those of other manufacturers, such as Ford. Some of the middle-skilled white collar jobs have left Sunderland as well: in 2003, much of the purchasing department relocated again to Cranfield, and in 2005 parts of finance moved to Budapest. This separation of production from higher value added jobs is very much in line with global economic geography trends, and means that a large manufacturing plant may not generate highly paid jobs in its vicinity.[35]

The evidence strongly suggests that there is next to no chance of people in Sunderland having the same opportunities as the people of Birmingham or Portsmouth, let alone the same chances as those in London or Oxford. It is time to stop pretending that there is a bright future for Sunderland and ask ourselves instead what we need to do to offer people in Sunderland better prospects.

33 Caulkin G, "Keane turns fire on the WAGs", *The Times*, August 15 20087 see www.timesonline.co.uk /tol/sport/football/premier_league/article2260422.ece

34 *Key Figures for Education, Skills and Training, Sunderland (Local Authority) and Newcastle upon Tyne (Local Authority)*, Neighbourhood Statistics, Office of National Statistics

35 Thus the recently launched Qashqai, arguably the most British Nissan ever, was designed at Nissan Design Europe in Paddington, London, with technical development undertaken at Cranfield, before being built in Sunderland

8

Expanding London

As we, and others, have noted, London is an economic super-city and, within Britain at least, it stands in a league of its own. This is both a constraint and an opportunity: a constraint in that the presence of London in the South means that the North-South (or, for that matter, the Wales-South) gap is here to stay. As we have noted, you cannot move JP Morgan to Blackburn, or Deutsche Bank to Sunderland.[36] If you try to do that, they will contract, and may leave Britain altogether. As a result Blackburn, Sunderland, Merthyr Tydfil and so on will never be as rich as London.

But London also offers Britain a great opportunity and one that is almost unique in Europe: the opportunity to expand a global city capable of generating large numbers of high quality jobs. There is every reason to think that London is currently below its optimal size and if the capital expanded by attracting people from our regeneration cities, then it could transform their lives.

We do not know London's optimal size and it is impossible to work it out ex ante. We showed in the last chapter, however, that there are many reasons to believe that the optimal size of service-sector cities has grown, perhaps considerably in the last 50 years. London itself has grown in that time, both in terms of the number of people who live there and the number who work there. Since 1980, when Docklands began, 14 million sq ft of office space have been built in the Canary Wharf Estate, the vacancy rate stands at 0.4 per cent and work on building another 12 million sq ft is underway.[37] Between 1980 and 1998, the lifespan of the London Docklands Development Corporation, over 24,000 homes were built.[38] These houses have not stayed empty, nor have they led to empty houses elsewhere. On the contrary, London's population has grown. The new Docklands flats are not occupied by those without work, nor have its residents "stolen jobs" causing decay elsewhere within London. The growth of the financial services sector in London has been rapid enough to supply these people with work, without harming other parts of London, or the rest of the country.

What has happened since 1980 can happen again. We know that there is excess demand for housing in London, in that house prices in every part of London are higher than the national average. Indeed, so great is London's economic potential that land values in the lowest value area in London – Redbridge – are higher than everywhere else outside the South East.[39] That is true only because people from the rest of the country (and elsewhere) want to move to London because it is a job-creation city. That is not to deny that London has some severe employment problems of its own. Its worklessness rate is surprisingly high. But those problems predate the Docklands expansion, are not caused by the arrival of migrants from within Britain or elsewhere, and will not be solved by preventing their arrival. London's unemployment problems are generally localised and require tailored local solutions to reconnect certain groups with the labour market.[40] In general the demand for labour

36 Ormerod P, Cook W and Rosewell B, *Why Distance Doesn't Die: Agglomeration and its Benefits*, GLA Economics, Working Paper 17, 2006, see www.london.gov.uk/gla/publications/economy.jsp

37 Thomas D, "George Iacobescu: Transport will drive growth", *Financial Times*, 7th April 2008, see http://us.ft.com/ftgateway/superpage.ft?news_id=fto040720081113057551&page=2

38 *Regeneration Statement*, LDDC, March 1998, see www.lddc-history.org.uk/regenstat/index.html

39 *Property Market Report July 2007*, Valuation Office Agency, 2007, see www.voa.gov.uk/ publications/property_market_report/pmr-jul-07/index.htm

40 Willoughby M, "All Hail to Tottenham", *On Office*, 1st May 2008 see http://onofficemagazine.com/index.php?option=com_content&view=article&id=124:all_hail_to_tottenham&catid=104:property; Martin R and Morrison P (Eds), *Geographies of Labour Market Inequality*, Routledge, 2003

expands with the supply of labour, and allowing London's population to grow will lead to an increase of jobs.

We believe therefore that part of the solution to urban regeneration in areas far from London is to allow London to grow, so that some of the people living in those areas are able to migrate to London. This will directly improve the lives of those who chose to move – they would not move if it did not – but as we will see later, it also has the potential to improve the lives of those who do not choose to move.

We noted that it is impossible to predict how large London should grow. Even Michael Heseltine could not have foreseen the scale and extent to which Docklands would be a success. But even if we do not know London's optimal size, land prices indicate that London's optimal size is larger, probably far larger, than its current size. Given that London is and will remain richer and more productive than anywhere else in Britain, the Government should be striving to increase the number of people who have the opportunity to live there. After all, doing so will raise average living standards, perhaps substantially.

As we have seen, a city's optimal size is reached when the additional agglomeration gains from a rise in population are fully offset by a rise in congestion costs. As such, we can increase the optimal size of London by making it easier for knowledge spillovers to occur and by reducing congestion. Both of these require improvements in transport and that means investments in public transport. In the last ten years the number of people using the London Underground has increased by 31 per cent, far faster than the increase in the size of the network.[41] In short, not only has the supply of transport failed to help London to grow to its optimal size, it has failed even to keep pace with the city's current needs.

The same is true for overground rail. Although there have been substantial improvements to many long distance train lines in the postwar era, London commuters have been neglected. Despite advances in technology in every sector of the economy, it is no faster to commute to London now than it was after the Second World War, and it is actually slower to commute now than it was in 1971.[42] The reason is simple: traditional cost-benefit analysis has included only the gains to the traveller without considering the wider economic benefits. That is changing: Department of Transport cost-benefit analysis now includes a significant element of agglomeration economies. But what is not changing is the level of investment. Evidence-based policy requires the Government not only to perform the cost-benefit analysis correctly, but also to act on the results of that analysis.

People do not have to live in London to work in London; they can commute from the dormitory towns that ring the city. From an agglomeration point of view it matters little which option is taken since in both cases the person works in London. From a practical point of view, both are eminently possible.

There is, in fact, a great deal of land within London and surrounding areas that could be released for housing. By this we do not mean building over back gardens, although there will be cases where that is appropriate. Instead we refer to land currently restricted for warehousing and other low value uses. The current planning system requires local councils, to state that a particular piece of land can be used only for housing, or retail, or industrial use. Local authorities are not required, expected or encouraged to use price signals to determine to which use land should be assigned. Local authorities appear proud of the fact that they prevent land uses changing in response to price signals. The council for the London Borough of Richmond upon Thames, for example, reports: "With high residential values, there is pressure to change employment sites to residential,

41 Since 1992 passenger trips by bus and LU increased by 36 per cent. LU = 1 billion trips per annum, see www.london.gov.uk/mayor/transport/facts-and-figures.jsp

42 Beattie J, "Train Journeys Slower than in the Age of Steam", *Evening Standard,* 3rd September, 2007

which the Council has generally resisted."[43] Despite the fact that "Richmond's unemployment rate (by claimant count) is one of the lowest in London", despite the fact that "48% of local jobs were taken by in-commuters" many of whom arrive by car, resulting in "problems of traffic intrusion and congestion", and despite the clear and accepted shortage of housing in the area, only 0.3 per cent of Richmond's "employment land" is rezoned for housing each year.[44] Indeed, the council is not even keen to rezone industrial land that causes a nuisance. A reasonable person might expect that "Where an existing employment use of a site within a predominantly residential area is causing detriment to the amenity of that area by reason of noise, vibration, smell, fumes, dust etc" the council would be keen to see it replaced by housing in keeping with the residential area. But no – the sentence continues that "the Council will seek improvements, in order to overcome the nuisance caused to residential neighbours". The list of criteria that need to be satisfied before the council will allow the land to be used for housing is extensive.[45] Nor are we talking about trivial amounts of land being used for low-value added activities. Richmond council notes that it has around 250,000 sq m of warehouse space alone. Even excluding the associated car parking and access, this is 25 hectares of land that could be used for housing but which is being used for low value, low employment warehousing instead.

Richmond is not alone by any means, and such policies have been encouraged by central government through its Planning Policy Guidance notes. The result is that land of different classifications is priced very differently. Although the exact prices of different types of land vary by place, it is almost always the case that land for housing is valued more highly than land for industrial use, particularly in South East England, and particularly in London. This is, in effect, a hidden subsidy to industrial employment in affluent areas, since employers are not required to pay anything like the market value of the land that they use.

The scale of the subsidy to industrial, warehouse and other commercial uses is large. In Greenwich, for example, industrial land is typically valued at £2.1 million a hectare, whereas land for houses is worth £6.5 million, and land for flats or maisonettes £8 million.[46] This is a hidden subsidy of around £5 million a hectare, or £500 a sq m. With 224 hectares of such land in Greenwich, the planning system has reduced the value of land in Greenwich alone by over £1 billion.[47]

The subsidy is greater still in inner London, reaching £700 a sq m in Hackney, and £1,300 a sq m in Southwark. We find high levels of planning subsidy in Britain's other property hotspots: around £575 a sq m in Guildford, £730 in Oxford, £400 in Bournemouth and £950 in Cambridge. The subsidy is much lower in areas that are in receipt of regeneration funding: £150 in Stoke, £157 in Merthyr Tydfil, and £168 in Middlesbrough. It is truly bizarre that a country wanting at least some jobs migrate to less prosperous areas has devised a planning system that subsidises land-hungry firms to remain in more prosperous areas.

We therefore make an explicit policy proposal. We should move to a system whereby landowners have a *prima facie* right to convert industrial land into residential land at least in areas of above average employment. It is hard to imagine local people objecting to warehousing and factories being replaced by houses. This would increase the amount of housing in London and the South East. We estimate that industrial land currently accounts for 2,643 hectares in London,[48] and 7,451 hectares in the South East.[49] Assuming that half of that land was used for housing at a standard suburban housing density of 40

43 "Local Development Scheme", London Borough of Richmond upon Thames, p 20, April 2007, see www.richmond.gov.uk/07revisedfinallbrldsfinalversion-2.pdf

44 "Unitary Development Plan", Chapter 9: Employment and Economic Activity, London Borough of Richmond upon Thames, Section 9.6, March 2005, see www.cartoplus.co.uk/richmond/text/09_emp_employment.htm

45 Ibid, section 9.41

46 "Residential Building Land Figures, Property Market Report", July 2007, Valuation Office Agency, 2007, see www.voa.gov.uk/publications/property_market_report/pmr-jul-07/residential.htm#outer_london1

47 *Jobs and the Local Economy*, Greenwich Council, 2007, see www.greenwich.gov.uk/NR/rdonlyres/4ABCB213-F0DD-43E1-9999-3942B275C318/0/4PT2jobslocaleconomy.pdf

48 URS Corporation Limited, London Industrial Land Release Benchmark, Greater London Authority, Table A1 Industrial Floorspace Stock in London, 2007, see www.london.gov.uk/mayor/planning/industrial-land/

49 " NLUD-Previously Developed Land Results", National Land Use Database, 2006, see www.nlud.org.uk/document/gose.xls

houses per hectare, this policy should generate more than 200,000 houses in London and the South East without building on any greenfield sites or on any gardens. It would also lead to an increase in the value of land of the order of £25 billion.

We said earlier that more housing in the South East would have beneficial effects for our regeneration towns. It would lead some firms currently located in London and the South East to move to areas where land was cheaper, that is, to areas that are in need of regeneration. This will be a sustainable market-led approach to regeneration. One example might be the Post Office, which continues to sort considerable volumes of mail in London and the South East. Once it was able to sell its land for housing at a considerable profit, the Post Office would have a greater incentive than ever before to sell its London sorting offices for housing. Mail would then be collected in London, taken to (say) Leicester by train, sorted in Leicester, and returned to London on the first train the following morning for onward delivery. This change would mean fewer Royal Mail jobs in London and more in Leicester. But since employment opportunities are more plentiful in London than Leicester, those who lose their Royal Mail jobs in London would be more likely to find other work than that those who gained the Royal Mail jobs in Leicester. As a result, overall employment increases, with the increase occurring entirely in Leicester.

Allowing land currently used for commercial businesses to be converted into residential housing in London and surrounding areas will yield a considerable number of new homes. There can be no guarantee, however, that this will be sufficient to exhaust the possibilities of London as the generator of high-quality jobs, and thus as somewhere that can offer real opportunities for people from across the country.

It is likely that Britain faces three choices. We can constrain development in London and the South East, leading to much higher house prices in these areas, and to Britain being poorer overall. We do not support that vision of Britain. Alternatively, we can build more densely on the land that we have set aside for development, so that many people live in London in very small flats. Again we do not find that vision appealing. That leaves the third option: a significant expansion in the amount of land allocated to housing.

> “Allowing land currently used for commercial businesses to be converted into residential housing in London and surrounding areas will yield a considerable number of new homes”

No one likes urban sprawl. Residents of Wimbledon may well wish that Surbiton had never been built. To them Surbiton is simply a place they have to pass through to get to the countryside. No doubt the people of Wandsworth feel the same about Wimbledon; no doubt the people living in zone one wish that zones two to six had never been built. After all, without suburbia the people of Chelsea would find it much easier to get out of London on a Friday evening and return on a Sunday evening. And yet we know that they do not mind urban sprawl that much. If they did they would not have chosen to live in the middle of a major city. In fact, London would not be London without its suburbs, and the quality of jobs that are generated by the agglomeration economies that can only come from a city of a substantial size.

There is a benefit to the people of Wimbledon from having Surbiton nearby: Surbiton adds more workers who in turn increase the agglomeration economies which in turn increase the equilibrium wage rate enjoyed by everyone including those from

Wimbledon. The number of people in London is also an important reason, in fact *the* important reason, why London is such a vibrant city. The sheer range of activities – art galleries, opera, and so on – could not take place if it was smaller. Urban sprawl may not be desirable in itself, but it generates outcomes that are valued by many: good jobs and a wide variety of activities available to residents and visitors alike.

A very small increase in London's urban sprawl would generate a great deal of housing. Someone travelling from central London to the countryside will be travelling at about 70 miles an hour by the time they reach the outskirts of town, whether by train or on the motorway or trunk A road. Let us imagine for the sake of argument that we increase the journey time by one minute. One minute at 70 miles an hour is just over a mile. If we expand the size of London suburbia by one mile, and use that additional land for housing then, assuming a density equal to an outer London borough such as Kingston, we will have added approximately 400,000 houses, that is, homes for more than one million people.

Would it really be the end of the world if those leaving London travel through suburbia for an extra minute? Indeed, would it really be the end of the world if those leaving London travelled through suburbia for an extra five minutes? It is hard to believe that this would greatly reduce the standard of living of those who currently live in London, but if it allowed a million people to move from some of Britain's least successful places to London, then it would transform their lives. Are those of us who live in London really so selfish as to refuse to travel for an extra minute to reach the countryside, knowing that our selfishness was destroying the prospects of prosperity for a million people?

Nor is house building an environmental problem. We know that gardens are some of the most bio diverse habitats in Britain: they are certainly more bio diverse than British agriculture. The number of birds living in a hectare of gardens far exceeds the number living in the equivalent amount of countryside.[50] Of course new suburbs and new towns have to be devised in sympathy with their surrounding areas. No one wants acres and acres of matchboxes devoid of schools and shops. It is right and proper that we design new housing, whether in new towns or in new suburbs, to provide a high quality of living and low externalities. But that can be done just as well by expanding London or any of its surrounding towns as it can by building elsewhere.

The same arguments apply to expanding existing towns and to building new towns. The only areas to which these arguments do not apply are small villages. Those who have chosen to live in small villages have chosen to live in small villages for a reason: they like small villages. Adding thousands of new homes to a small village changes the nature of the place dramatically, and although no one has the right to ensure that their area never changes planners should be particularly careful about changing the nature of a place so fundamentally.

It is widely known that development is very unpopular with local people as we can see from the reaction to the Government's proposed eco-towns. But it need not be so. When land is released from agriculture and assigned to housing its value soars, often by a factor of 1,000. If that value can be captured by the community it can be used to persuade people that development is in their interests. In the immortal, and somewhat capitalist, words of Aneurin Bevan when explaining how he overcame consultants' objections to the National Health Service: we can stuff their mouths with gold.

Various methods have been suggested as to how we can do this. Kate Barker has proposed a planning gain supplement;[51] Alan Evans and Oliver Marc Hartwich

50 Gaston K and Thompson K, "Evidence for significance of biodiversity in gardens", presented to the Royal Horticultural Society Conference, "Gardens: heaven or hell for wildlife", 2002

51 Barker K, *Barker Review of Land Use Planning, Final Report – Recommendations*, HM Treasury, London, 2006

have suggested a tariff-based system, as used in Milton Keynes.[52] More ambitiously, Tim Leunig has suggested an auction style system, learning from our successful experience of the 3G mobile telephone auction.[53] All of these schemes have advantages and disadvantages, and in reality all should be piloted before they are rolled out nationwide. But all share a common feature: they give local councils and local communities greater financial incentives to support development.

Let us take the case of Guildford to give a sense of scale of the incentives that could be offered to local people to support development. Imagine that we were to add 10,000 houses to Guildford. This is clearly a substantial number and under the current system would lead to extensive protests. But each house that is built adds approximately £140,000 in value to the land on which it sits. Let us imagine that the community captured £100,000 of that value, with the remainder going on buying the land and providing the infrastructure. That means that Guildford Borough Council would be sitting on a total profit of £1 billion, or around £15,000 per resident. Thus the council could ask local people whether they preferred to be given £15,000 a head and accept 10,000 additional houses, or whether they preferred to keep Guildford at the same size and make no windfall gain.

As MPs and local councillors across Britain know, local residents do not like development but nor do they like council tax. Guildford would only have to allow 500 new houses a year to abolish council tax altogether. It seems likely that the people of Guildford would trade a 1 per cent increase in housing for a 100 per cent reduction in council tax. As Bevan showed 60 years ago, stuffing people's mouths with gold is a very effective way of securing agreement. The difference here is that the gold is created by the process, it does not require any rise in taxes elsewhere because the process is self-financed.

For these reasons we believe it is more than realistic to imagine that communities in the South of England, including but not limited to London, will welcome additional housing as long as they are gain sufficiently from the process. Nobody likes urban sprawl per se, but as house prices in Wimbledon show, the disutility of having Surbiton next door is really very small indeed. Wimbledon remains a desirable place to live even though it is now surrounded by a couple of miles of suburbia.

The exact extent to which additional London workers should live in London or other parts of the South East is not a subject for this paper: both have the potential to generate agglomeration economies and the exact ratio should be dictated primarily by market signals. Nevertheless, we note that if they are to live outside London then the quality of transport into the capital has to improve. People will not commute for three hours a day. Faster trains increase the range of places that are within commuting distance of London. This in turn increases the number of places that can be expanded while still gaining the agglomeration economies that London offers. We need to think seriously about how the railways can be improved.[54] In the postwar era long-distance trains have been improved no end: the train from London to York or Manchester is now much faster than it was 60 years ago, but commuter trains typically are not faster. That needs addressing because faster trains increase the accessibility of the London labour market. Commuter trains are also too expensive for many. It is quite wrong for government policy to levy franchise payments that translate into higher fares for London commuters. The South West trains franchise, for example, requires Stagecoach to pay over £1 billion to the Government for the rights to run commuter trains to Waterloo. That £1 billion is a hidden tax on commuters, and amounts to approxi-

52 Evans A and Hartwich O, *Better Homes, Greener Cities*, Policy Exchange, London, 2006

53 Leunig T, *In my Back Yard: unlocking the planning system*, CentreForum, London, 2007

54 *The Billion Passenger Railway, Lessons from the Past: Prospects for the future*, Association of Train Operating Companies, 2008, see www.atoc-comms.org/admin/userfiles/Billion%20Passenger%20Railway%20090408.pdf

mately £2 per return journey. In other words, if this tax were removed, the price of an annual season ticket would fall by approximately £450. If we are serious about making London the engine of the wider UK economy, it is bizarre to be taxing train journeys into London.

It is important, however, that London does not suck in all of Britain's skilled workers, leaving declining towns only with those who do not have the skills to move. To some extent this is what is happening at the moment. House prices are such that the only people who find it easy to move to London are those with high enough earning potential to allow them to live in London. The capital attracts a disproportionate number of graduates.

We need to ensure some degree of balance in migration to London. The group who are least likely to migrate to London are those in social housing, which is highly localised. A Wigan resident cannot ask to be put on the housing waiting list in Wandsworth, nor can a Warrington resident ask for social housing in Woking. Social housing is very much for local people. Given that people in social housing tend to be lower skilled, this means that those with low skills find it much harder to move areas. As John Hills reported, virtually no one in social housing moves for job related reasons.[55]

We need to change that. If London is to expand, then a proportion of the new houses have to be reserved not simply for social housing, but for social housing for people who do not currently live in the area. If we imagine that people from Blackpool move to an expanding Bromley, then if Blackpool's skills mix is not to change it must lose the skilled and the unskilled in equal measure. That in turn requires that Bromley offers social housing to people from Blackpool in sufficient quantities. Social housing makes up around 1 in 5 of Britain's housing stock. As a rule of thumb, therefore, 1 in 5 net new houses in growing areas needs to be reserved for social housing tenants from areas whose populations are not increasing.[56] In addition, local authorities may want to provide additional social housing for local residents.

Requiring an expanding Wandsworth, Woking or Witney to offer significant levels of social housing for people from Walsall, Warrington and Wigan will not be popular, and it will not happen unless local councils are required to do so. If we do not require expanding areas to offer social housing to people from economically declining areas then we will create a spiral of decline in those places. As now, the skilled will leave, leaving the unskilled trapped in a town that remains poorly located, and has an ever lower skills base.

55 Hills J, *Ends and Means – The future roles of social housing in England*, CASE report 34, Centre for the Analysis of Social Exclusion, 2007

56 Ibid, p 43

9

It will not just be London

At first sight the existence of agglomeration economies seems to imply that we will all end up living in London. That is not the case. Agglomeration economies will continue to increase as London – or any other city – grows, but the congestion costs will also rise. There comes a point, therefore, when London's congestion costs are pushing up the cost of living as fast as agglomeration economies are raising wages. At that point it will have reached its economically optimal size.

We know that London has not yet reached that size because high land values indicate that people wish to move to London. The same is true for the commuter towns surrounding the capital. As we have said, there is a strong economic rationale for expanding both areas.

Nevertheless, at some point, which is impossible to predict, congestion costs will rise to a level such that people will no longer want to move to London. Although land in all of Inner London, from Chelsea to Tower Hamlets, will always be high, at that point the value of land for housing at the edges and around London will no longer exceed the UK average, since people will not, on average, want to move to London. The city will have reached its optimal size and we should stop expanding it. The same will be true of the London commuter towns, which may reach their optimal sizes before or after the capital, and certainly at different times to each other.

As we, and others, have noted, London stands out as a globally successful city, capable of creating very large numbers of very good jobs.[57] But as we have just seen, London cannot grow to accommodate everyone who might like to live there. The question then is whether Britain can create another London, a city or group of cities capable of being globally competitive in high value-added sectors.

There can be no certain answer to this question, but there are two ways of working out which cities have the greatest potential to thrive at the global level. The first is the planner's way. It is to identify the criteria necessary to be a global city and then to see which cities are closest to those criteria. The second is the economist's way, which is to see what land prices are telling us. As we shall see, both methods give the same results.

Intelligent planners know that the strongest foundation for cities with global reach is that they are based on exceptional skill levels that cannot easily be replicated elsewhere. When we look to places such as Boston, Massachusetts, and Silicon Valley, in California, we find that they are associated with some of the world's best universities: Harvard and MIT in Boston, and Stanford in the heart of Silicon Valley. It is therefore sensible to ask ourselves which are Britain's best universities outside London.

That Oxford and Cambridge are world class universities is well known. But it is worth setting out the research gap between Oxford and Cambridge on the one hand and other (non-London) universities in some detail. All university league tables are

57 Sassen S, *The Global City: New York, Tokyo, London*, Princeton University Press, 2001

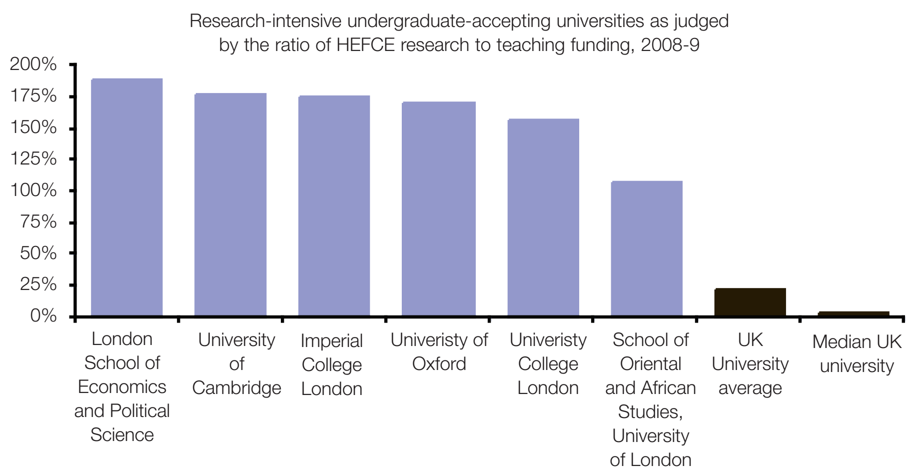
crude measures and ours is no exception. The measure that we use here captures the research intensity of Britain's universities by looking at the ratio of government funding given for research to that given for teaching. In essence, research funding is awarded according to the quantity of high quality research, while teaching funding is given on a student per capita basis. As such the ratio of one to the other gives the relative research strength of a university.[58]

Only six institutions receive more for research than for teaching: these are our strongest research universities. They consist of four London University colleges – the London School of Economics and Political Science (LSE), Imperial, University College and the School of Oriental and African Studies (SOAS) – Oxford and Cambridge. Excluding Oxford, Cambridge and the University of London, the average UK institution receives only 23 per cent as much funding for research as for teaching, about an eighth as much as Oxbridge. The median institution receives only 4 per cent as much funding for research as for teaching. Even the next highest ranked university, Southampton, receives only a fraction over half as much funding for research relative to teaching as do Oxford and Cambridge, while universities such as Nottingham and Leeds are on a third of Oxbridge levels. There is, in other words, a huge gulf between Oxford, Cambridge and London on the one hand, and the remaining UK universities on the other. That is not to say that universities like Southampton, Nottingham and Leeds are poor universities in any sense, rather it is to state that in Oxford and Cambridge Britain has two of the world's finest universities, and it is likely that these can form the basis of strong, successful, substantial cities.

The alternative way of deducing which cities should be expanded is that of the economist, which involves looking at land values. These give a measure of the relative extent to which people are trying to move to a place. Outside of London and immediate commuter towns such as St Albans the highest land values are found in Oxford and Cambridge. Again, this tells us that these cities could grow very effectively.

It is not possible to predict the optimal size of these cities. The only way to discover that is to expand their size and see what happens to land values. If they remain high, then it is economically rational to expand the city further. If they do not, then the city should not be expanded further.

Figure 4: University to teaching ratio[59]



58 We exclude institutions admitting fewer than 100 undergraduates a year. London Business School, the Institute of Cancer Research, the London School of Hygiene and Tropical Medicine, the Courtauld Institute of Art, and the Institute of Education all have research to teaching funding ratios exceeding 100 per cent. All are in London, so their exclusion does not change the results

59 Ratio is HEFCE research to HEFCE teaching funding, 2008-9. Excludes research council funding, which is awarded by individual application. Universities also receive funding from other sources, such as charitable foundations, the EU and business, which are not included in these figures. Excludes institutions with fewer than 100 undergraduate acceptances in 2007-8, Higher Education Funding 2008-09, BBC 6th March, 2008 see http://news.bbc.co.uk/1/hi/in_depth/629/629/7279454.stm. The average figure given here excludes Oxford, Cambridge and University of London colleges. University sizes from *UCAS*, 2007 see www.ucas.com/about_us/stat_services/stats_online/data_tables/abushei/abushei2007/

It is likely that the optimal size could be quite large indeed. At the start of the 19th century Liverpool and Manchester were around the size of Oxford and Cambridge today. Over the course of the century Liverpool and Manchester both grew five-fold. It is plausible that since 1945 Oxford and Cambridge would have grown on a similar scale were it not for very restrictive planning policies. Indeed, given that economic geography tells us that optimal city sizes have probably increased in the 20th century, and that optimal sizes are largest for high-skill, service-sector based cities, it is more than possible that the optimal size of each town exceeds one million people, perhaps by a considerable margin.

In many ways both cities are in good locations for expansion. Both are near major airports, with Oxford's proximity to Heathrow edging out Cambridge's proximity to Stansted. Against that, a population of one million or more affluent people in globally connected businesses in Cambridge would be likely to lead to a rise in the number of long-haul flights from Stansted. Both are also near London, which again adds to the agglomeration economies available to all three cities collectively, although the journey between Oxford and Cambridge is somewhat tedious.

The Government wants three million houses to be built in Britain by 2020.[60] The best approach to determining the right locations is to follow land price signals that can and will change over time, but it is plausible that the optimal economic location for these houses is a million in and around London, a million in Oxford and a million in Cambridge.

> “ Oxford and Cambridge are not cities with particularly large regeneration problems, but expanding them can create opportunities for people who live in towns and cities that do ”

Oxford and Cambridge are not cities with particularly large regeneration problems, but expanding them can create opportunities for people who live in towns and cities that do. As we noted earlier, this does require greater levels of internal migration than Britain has been used to in recent years, but the levels of migration envisaged are far smaller than those of 19th century Britain. Given all the improvements in transport and communications in the last century and a half, that cannot be infeasible.

Box 2: Hastings – connecting the connectables

Britain can effectively be split into two parts, which we term “connectable” and “unconnectable” Britain.

By connectable we mean primarily but not exclusively connectable to London. We know that London is not only the richest place in Britain but that it has a proven track record of raising up the communities that surround it. Places such as Guildford and Windsor have high skilled populations of their own: they would be affluent wherever they were. But there are many areas, particularly east of London, which do not have particularly highly skilled populations and yet are reasonably successful.

We think, for example, of the Medway towns. In the 1980s Medway lost two major employers: the Royal Naval dockyard and Metal Box. In the 1980s, therefore, Medway had much in common with many industrial towns in the North of England, which were losing their manufacturing bases. But Medway today is a reasonably successful place. It is not the most affluent place in Britain by any means but nor is it struggling. The reason for Medway's revival has little to do with Medway, and everything to do with London. As anyone who has stood on Chatham station in the morning will know, commuting is a fact of life for many Medway residents. Proximity to London has kept Medway afloat, and prevents it from entering into a spiral of decline.

60 *Homes for the Future: more affordable, more sustainable*, Housing Green Paper, Department for Communities and Local Government, 2007, see www.communities.gov.uk/housing/housingsupply/

Medway, then, is an area whose connectedness to London has ensured that it remains economically viable despite severe shocks in the 1980s. There are other places that are poor in southeast England that could be connected. In our original sample of urban regeneration towns we would point to Hastings as an example. But it is not the only one: Thanet towns such as Margate are another example. These are places that can be regenerated. The way to do so is simple: increase their connectedness to London. Given that commuters into London overwhelmingly travel by train, the obvious way to increase the connectedness of places in the South East is to improve the quality of train links between them and London. At the moment the direct train from Hastings to London takes an hour and 51 minutes and stops at between 11 and 13 stations. Given that the distance between Hastings and London is only 62 miles this means that the train is running at an average speed of 34 mph. Were trains to Hastings to run at the same speed as trains to Swindon, the train journey would be cut to 47 minutes, similar to the tube ride from Shepherd's Bush to Canary Wharf.

But Swindon is lucky in two senses. First, the train line out of Paddington was exceptionally well engineered. Very few trains out of London manage the speeds of trains to Swindon. Second, trains to Swindon are fast because Swindon is on the mainline to Bristol, Exeter and Cardiff. No matter how well we reconfigured the railway system, Hastings will never be on the way to anywhere: it is the end of the line. This means that the quality of the railway that is viable between London and Swindon is not viable between London and Hastings, and never will be. Being on the coast is a major disadvantage today.

Realistically therefore, Hastings will never be as well-connected to London as is Swindon. In all probability, Hastings will never be as rich as Swindon. The challenge is to cascade wealth from London to places that are well-connected around London and then on from those places to Hastings.

There are two obvious candidate intermediate places: Brighton and Dover. Brighton is in many ways a successful city. It is well connected to London, and to Gatwick airport. But it is surprisingly badly connected to the other towns along the South Coast, in either direction. Not only is there no motorway link there is no continuous dual carriageway either. In fact, fewer than 7 of the 36 miles between Brighton and Hastings are dual carriageway, and even that comes in two parts, and is punctuated by roundabouts. It is even worse going east from Hastings: there is no dual carriageway on the route between Hastings and Dover until you reach the A20 in Folkestone. Given the poor quality of the roads, it is not surprising that the RAC predict that it will take an hour to get from Hastings to Brighton, and over an hour and a quarter to get from Hastings to Dover, despite the fact that these journeys are only 36 and 46 miles respectively. The rail connections are even worse: it typically takes one hour and five minutes from Brighton and one hour, 40 minutes from Dover, with a change at Ashford.

Nor are the connections going north from Hastings any better: there are no dual carriageways between Hastings and Ashford or between Hastings and Maidstone and only three miles of dual carriageway between Hastings and Tunbridge Wells; the train lines on these routes, where they exist, are also slow. Hastings, then, is not connected, but it could be. It is perfectly possible to imagine the dual carriageway between Dover and Portsmouth, which would connect towns such as Hastings to the Channel Tunnel and the ferries to Europe on the one hand, and begin to create agglomeration economies between the otherwise rather isolated towns of the English South Coast on the other.

It would be particularly beneficial for Hastings if Brighton were to grow. Perhaps surprisingly, Brighton already has trains that are fast enough to make the journey from Brighton to London the third busiest in Britain.[61] That line is sufficiently well used (even more so between Gatwick, East Croydon and London) that increasing the speed of trains on that line is likely to pass cost-benefit analysis.[62] This in turn would allow Brighton to grow and create a South Coast agglomeration area, to the benefit of Hastings and other relatively poor coastal towns, which could then orient themselves towards Brighton. For Brighton the problems associated with being on the coast are trumped by its connectability to London, and it has the potential to create regional spillovers to other towns in the area.

61 We thank the Association of Train Operating Companies for supplying us with this data.

62 East Croydon to London is the most popular journey in Britain, Gatwick to London is the seventh. There are more than 14 million journeys a year on these three routes alone, plus millions more from intermediate stations.

10

Economic geography outside of the South East

The implications of economic geography for the South and particularly the South East are clear. Britain will be unambiguously richer if we allow more people to live in London and its hinterland. In addition, Oxford and Cambridge should be the prime cities to see significant but not, by historical standards, unprecedented expansion.

The lessons for other parts of Britain are more ambiguous. Nowhere will be as rich as London within the foreseeable future. It is also likely that an expanded Oxford and Cambridge would be richer than everywhere else in Britain. But that does not mean that everywhere else would be equal. On the contrary, the two important factors that we have pinpointed – location and scale – remain powerful indicators of their possibilities.

We noted that places with strong market potential are likely to be richer than other areas. Market potential derives from the characteristics of the place itself and the places to which it is well connected. Scale is part of a good location. Manchester is stronger for being larger. So is Leeds. Conversely, towns such as Burnley or Merthyr Tydfil suffer from being relatively small.

The evidence suggests that the optimal size of cities which concentrate on the service sector is larger than for those which concentrate on manufacturing. We can see this at the moment by looking at the bank, Northern Rock. By the standards of North East England, Newcastle is a large place. But Northern Rock dominates Newcastle's financial services sector, to the extent that were Northern Rock to fail, Newcastle's financial services would be all but destroyed. In contrast, were a similar size London financial institution to run into trouble, it would make little difference to London's status as a financial centre, and the people working in that bank would be likely to find other banking jobs easily. Newcastle, in short, is small enough to be vulnerable to the collapse of a single firm; its economy is not as robust as a much larger centre such as London.

Manchester is the third largest metropolitan area in the UK after London and Birmingham . Although income varies widely in different parts of the city, Manchester as a whole is much richer than nearby towns such as Blackburn, Oldham and Rochdale – although there are affluent commuter towns nearby, such as Macclesfield, which cannot be considered separate from the Manchester economy.[63] Manchester is successful in part because it is large. It is also relatively well connected, with 407 trains during the working day, including a relatively fast and frequent service to London and Glasgow. The airport also offers a reasonable range of destinations and flights. The same is true of Leeds. It too has good train links, particularly to the South, with over 445 trains during the working day, an airport and reasonable connections to Manchester. It is

63 See, for example, Inland Revenue statistics: www.hmrc.gov.uk/stats/income_distribution/table3-15-feb08.xls

richer than its neighbours, large (Bradford) and small (Batley), although as with Manchester there are affluent commuter towns nearby (Shipley).[64]

If we look at the land price data there seems a strong argument, akin to the case we made for expanding London, Oxford and Cambridge, for expanding Manchester and, to a lesser extent, Leeds. Land for residential use in Manchester is currently worth around £5.75 million per hectare. Given that industrial land in Manchester is valued at only a tenth of that amount per hectare, there must be a very good case for reallocating at least some of that land for housing. But the case for expanding Manchester as a whole is dramatically weakened by the value of land in towns around Manchester. Land in Rochdale, for example, just ten miles from central Manchester, is worth only £1.9 million per hectare, less than the national average.[65] It is hard to see the wider Manchester area as short of housing. It would be odd to expand the city dramatically when there is so little demand for housing in nearby towns.

But size cannot explain everything: Liverpool, Bradford and Sunderland are all large; indeed Sunderland is larger than nearby Newcastle. But none of them is rich – quite the reverse. These are cities with a particular problem: although large, they are not the hub cities for their areas. Liverpool sits to an extent in Manchester's shadow, and Bradford and Sunderland are unambiguously in the shadows of Leeds and Newcastle. Manchester, Leeds and Newcastle are clearly the premier cities of their areas. They are the wealthiest, best connected, and have the highest skills base. It is very hard for nearby rivals to compete.

The same is true in the South East. Places such as Guildford and Romford, Hertford and Watford cannot compete with London. But they do not have to because London is a strong enough economy to allow them a new role – that of commuter towns – complementary to London, not rivals to it. Sadly for Liverpool, Bradford and Sunderland their larger neighbours, Manchester, Leeds and Newcastle, are not as powerful economically as London, which is also much larger relative to its commuter towns.

The three regional hubs will not lift the surrounding towns in the way that London lifts what would otherwise be relatively less prosperous areas such as North Kent and South Essex. The northern regional hubs are not as large as London and so have much less economic muscle. But there are other reasons as well. Londoners on good wages move out of London to the surrounding towns because they cannot afford the space that they would like in the city itself. Housing in London is expensive, whether we are talking about flats in the centre or the inner suburbs such as Islington and Fulham, or houses in outer suburbs such as Wimbledon and Hampstead. Even people with high incomes are forced to leave London and so take their prosperity with them. They move out along the train lines, to Woking, Reigate and Hemel Hempstead. Those with more modest salaries often move out along the slower train lines, accepting a worse quality service in exchange for cheaper housing. Although not as affluent as those commuting from the three towns just mentioned, those travelling in each day from North Kent and South Essex earn more than they would be able to do locally and as such they increase the prosperity of these areas.

The financial pressure to leave the northern regional hubs is much lower. Moving from the borough of Camden to Romford reduces the purchase price of a pre-1919 terraced house by £331,000, and moving from Camden to Gillingham, in North Kent's commuter belt, reduces the price by £386,000. But moving from Manchester to Rochdale saves only £178,000, even though Rochdale is significantly cheaper than anywhere else in the region. The gain

64 See, for example Inland Revenue statistics: www.hmrc.gov.uk/stats/income_distribution/table3-15-feb08.xls

65 Valuation Office Agency, op cit

from leaving Leeds or Newcastle is smaller still. Furthermore, the difference in price between, say, Rochdale and Macclesfield, at £85,000, is much lower than between Gillingham and Guildford, at £140,000. As a result, people with reasonable jobs in Manchester are more likely to be able to afford to live in Manchester or Macclesfield, whereas their counterparts might well be priced out of London and Guildford and therefore take their incomes to Gillingham. Gillingham benefits from the high price of property elsewhere: it makes the town attractive to people who might not otherwise consider it.[66]

In addition, the transport connections to the centre of Manchester, Leeds and Newcastle from surrounding smaller towns are not as good as those into London. Although Londoners grumble about their trains, tubes and buses, they are, by UK standards, incomparable. London is a city designed around commuters in a way that is true of no other city in Britain.

Rather than high skill, high pay workers leaving these regional hubs to live but not work in their surrounding lower cost areas, the regional hub cities attract the high skilled workers out of the surrounding lower cost areas. Rather than gaining affluent commuters, Liverpool, Bradford and Sunderland are more likely to lose their own local talent, attracted by the quality of life in the nearby hub. It is very hard to see conditions in Liverpool and particularly Bradford and Sunderland improving relative to their local rivals, or the national average, in any conceivable time frame.

The problem for many of our regeneration cities is twofold: they are too small to be an attractive destination in their own right and they are relatively poorly connected to other places that are attractive destinations. None of these cities is going to grow dramatically of its own accord, and it is unlikely that any of them are going to attract substantial numbers of highly skilled workers any time soon.

"Path dependency" or "chicken-and-egg" syndrome is at work: without skilled workers, firms offering well paid skilled jobs will not move to these towns. But without the jobs, skilled people will not move there either, resulting in the maintenance of the low skilled, low wage, high unemployment status quo.

The Government is committed to dispersing the Civil Service, as recommended in the Gershon review,[67] and the Liberal Democrats have even argued for the Treasury to be moved to Liverpool.[68] Sometimes dispersion works – the Teachers' Pension Agency moved to Darlington in 1967. But the Government has been much less successful in relocating highly skilled, and in particular, more specialised jobs out of London. We can see this at the moment with the plans of the Office of National Statistics (ONS) to transfer the production of statistics from its London office to Newport in Wales. The National Statistician, Karen Dunnell expects only 15 per cent of staff to move to Newport.[69] One ONS statistician told us that 15 per cent was an ambitious target, and predicted that the actual figure would be 2 to 3 per. One ONS worker told *The Guardian*: "No one wants to go to Newport."[70]

The Bank of England has warned MPs that: "The relocation programme poses serious risks to the maintenance of the quality of macroeconomic data." It said: "If substantial numbers of ONS staff are unwilling to relocate, the loss of skilled individuals could have a severe impact on a range of statistics."[71] The plan also demonstrates why relying on the relocation of skilled workers is not a sensible way to regenerate depressed areas: they do not move.

For private sector companies such relocation is simply not an option – if they try it their rivals will poach their staff. The public sector can do it – the ONS cannot go bankrupt because it has no rivals. But

66 Ibid

67 Gershon P, *Releasing Resources to the Front Line*, Independent Review of Public Sector Efficiency, HM Treasury, July 2004, see www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_efficiency.cfm

68 *The Lib Dem Plan for Slimming Government*, Liberal Democrats, 2008, see www.libdems.org.uk/government/issues/

69 Padgham J, "City Divided over Prospect for Summer Rate Rises 5.5% - but what then?", *The Independent*, 10th May 2007, see www.independent.co.uk/news/business/news/city-divided-over-prospect-for-summer-rate-rises-55--but-what-then-448211.html

70 Seager A, "ONS London Staff Seek New Jobs rather than go to Newport", *The Guardian*, 2th January 2007, see www.guardian.co.uk/business/2007/jan/26/interestrates

71 "Stats staff 'quitting' over move", BBC News, 14/05/07, see http://news.bbc.co.uk/1/hi/wales/south_east/6653771.stm

there is a cost – so worried is the Bank of England about the quality of ONS statistics in the next few years that it has increased the range of non-ONS data that it uses in its modelling.[72] That is a direct, if hidden, cost to the decision to move the ONS. Data from other sources cannot be a perfect substitute for ONS data. The Bank of England, and all other decision-makers, public and private, may well be using lower quality data in the future. To move the ONS offices to Newport without managing to move the staff is a tremendous risk to the economy; it may yet prove to be the most expensive and least successful piece of urban regeneration ever seen.

This does not mean that there is no future for high skilled work outside major cities: we know that there are many firms offering high skilled, highly paid, work in all sorts of places. In many cases the locations are essentially serendipitous. For example, the town of St Asaph in North Wales is home to a cluster of 35 firms producing military and high-technology optics. This grew originally from the Pilkington glassworks, but in recent years both Pilkington and other firms in the area have moved much further up the value chain. Pilkington Space technology, for example, produces around half the glass used by the global satellite industry. It is also an area in which new firms and new talent are nurtured. Technium OpTIC, a research incubation centre, has recently won the European Commission's RegioStars Award for 2008 for the quality of its research and development.

This example shows that even fairly remote places in Britain can sustain high-skill sectors. But we need to be careful: it is one thing to sustain an already existing sector, quite another to create it from scratch. Existing firms in existing locations have only to attract a handful of new staff each year, often younger people with fewer ties. Relocating firms, in contrast, have to persuade existing staff to move. That is much harder – their partners have jobs, their children are happy at school, and so on. Had the ONS always been in Newport, the Welsh town would probably work as a location for ONS, just as Cheltenham works for GCHQ. It is the act of moving, not the location itself, that is problematic.[73]

More generally, although London, Oxford and Cambridge are by far the most research-intensive universities, there are a number of high quality research universities across Britain. In some cases, such as Southampton, these play an important role in the local economy already. In others, such as York, there is the potential for the university to drive a significant expansion of the town, in the way that we have suggested could happen in Oxford and Cambridge. It is likely to prove easier to create significant new areas of high skilled work associated with Britain's top research universities than it is in areas that are currently most in need of such jobs. Migration within a region, as well as towards the South East, has to be part of the answer to the challenge of regeneration.

72 Giles C, "Welsh transfer a 'risk' to statistics, says Bank", *Financial Times*, 10th May 2007, see www.ft.com/cms/s/0/f40355bc-fe92-11db-bdc7-000b5df10621.html

73 Even so, locating in an area where partners have difficulty following their careers creates two problems. First, the firm or government department in question may have difficulties in attracting staff to a place that offers limited opportunities for their partner, and secondly, if they do manage to attract the staff, the skills of the partner may not be fully used, to the detriment of the person concerned, and the economy as a whole

11

Setting cities free

Our international research, set out in *Success and the city*, has demonstrated the power of localism. Places such as Vancouver, the Randstad cities of the Netherlands, Hong Kong and the Ruhr cities of western Germany, have all used their autonomy to good effect. That is not to say that by unshackling British cities we will release a huge tide of civic entrepreneurship: as the cases of Warsaw and Łódź demonstrate, freedom is not enough, it takes expertise as well.

There is much expertise in the British regeneration industry, whether in local government, regional agencies, central government or the private sector. But much of it is misdirected. When talking to people involved in regeneration at the grassroots, we were struck by how often they told us of the time and effort that they put not into regeneration, but into keeping central government happy. Central government controls the money, and so it is to central government that they look, it is central government that is their judge, their jury and their hangman.

This is not how it should be. It matters little whether central government thinks a scheme has been a success; what matters is whether local people in the place concerned think the scheme has been a success. There is something of an unholy alliance between centralisers and technocrats in Britain. The centralisers believe that only they have the expertise to devise plans and only they can evaluate what has worked. The technocrats believe that local people cannot distinguish whether a scheme is successful because of its own merits or has just been lucky.

This is wrong. Of course there is a role for experts, but they are there to inform not to decide. When people feel disempowered they stop thinking for themselves. In fact they tend to become reactionary and antagonised by imposed change. They reduce their levels of engagement with civil society, and this is worrying on both an economic and societal level.[74] As we shall see, there is every reason to think that this makes regeneration less likely.

We believe that there are four reasons why localism is likely to improve regeneration outcomes. First, it will lead to diversity, and diversity generates evidence, which is the cornerstone of good policymaking. Secondly, it will lead to solutions being more closely tailored to the wishes and requirements of local areas. Thirdly, it will allow the generation of new ideas from within the community. Fourthly, there is good evidence that when people are involved in setting their own priorities and feel that they have a genuine input into the way their area is run, they are happier. Since people's happiness is the ultimate goal of any society, this is of itself a successful outcome.

We concentrate on the first of these factors here, before returning to the others. That devolving power leads to diversity is self-evident, and we can already see that happening as devolution takes hold and is extended. Labour won the first elections in all three devolved regions – Scotland, Wales (both in coalition with the Liberal Democrats) and London, where the initially independent mayor, Ken Livingstone, was Labour in all but name.[75] The extent to

74 Rodríguez-Pose A and Storper M, "Better Rules or Stronger Communities? On the Social Foundations of Institutional Change and Its Economic Effects", *Journal of Economic Geography*, 82(1): 1–25, 2006

75 Northern Ireland has a very different system, in which British mainland parties do not meaningfully contest elections. For that reason we do not consider Northern Ireland here

which decision-making was different from priorities set nationally was limited by the same party being in power everywhere but, even so, variations could be seen: those in power in all three areas were to the Left of Labour at Westminster. Since then we have seen Labour lose ground in all devolved areas, and lose control of Scotland and London altogether.

> “ Our proposal is simple. Every single national regeneration programme would be wound down and the money distributed according to need ”

All those who believe in devolution should celebrate the election of non-Labour governments in different parts of the UK, not because they are anti-Labour but because they are pro-diversity. Having different parties in charge in different places increases the likelihood of different policies being put into effect. Different policies generate evidence about what works and what does not, which leads to more effective government in the long run.

We can see this most clearly in Scotland, both because Labour is no longer part of the executive there at all and because Scotland has greater constitutional powers to change policy than other devolved areas. An example is the plan of the minority Scottish National Party Government to replace council tax with a local income tax. This has been strongly opposed by the opposition Labour and Conservative parties. Wendy Alexander, the Scottish Labour leader, has described it as an “unworkable Scottish jobs tax”.[76] Supporters argue that local income taxes exist in many places in the world, including some American states. It is not for us to say who is right and who is wrong, because we do not, and cannot, know. The only way to find out is to try it. If Scotland tries it we will all find out whether it works.

From a social science point of view, devolution is like a pilot scheme with consent. The poll tax was first tried out in Scotland, but that pilot was of little use. It was too short in duration for central government to be able to work out the effects, and it was unpopular because it was imposed, irrespective of any merits that it may have had. In contrast, while local income tax is unpopular with two of Scotland’s main parties, it is supported by two others. If it is implemented it will not have been imposed from outside and compliance is likely to be high. It will be perfectly possible for others to assess its advantages and disadvantages and to learn from Scotland’s experience. Scotland’s decision to do something differently benefits everywhere else.

We saw this at work in the Ruhr and in the Netherlands. Amsterdam concentrates on diversifying housing tenure and recruiting service-based foreign investment while Rotterdam prefers to nurture its cultural sector and maintain manufacturing and logistics jobs associated with the port. In part these choices reflect the fact that they have different strengths and weaknesses, but both cities have similarities and can and do learn from each other.

All areas should want every other area to be given power over regeneration strategy because the natural variation in policy will generate evidence about what works and what does not work. That is to the benefit of all.

Our proposal is simple. Every single national regeneration programme would be wound down and the money distributed according to need. Nor would we restrict ourselves to targeted regeneration funding. There would be a strong case for including government spending designed to get people back to work, such as the New Deal funding streams. The Government should identify items of local expenditure that are currently financed from the centre and return them to the lowest level

76 Gardham M, “SNP's Local Income Tax Plans Are Unworkable, Blasts Wendy Alexander”, *The Daily Record*, 12th April 2008, see: www.dailyrecord.co.uk/news/scottish-news/2008/03/12/snp-s-local-income-tax-plans-are-unworkable-blasts-wendy-alexander-86908-20348136/

of government that is possible. Thus many local train lines would be handed to local authorities. Where they are loss-making, transitional funding relief would be given.

The formula would be straightforward, relying almost exclusively on the average income of people in the area, taking into account their ages.[77] There would need to be transitional spending to avoid huge winners and losers, but the aim would be to limit its duration. It would also be important to identify the reasons why some areas have traditionally received higher levels of funding than their apparent needs warrant in order to adjust future spending.

Thus, it is inevitable that central government funding to restore former mining areas will continue because disused mines are extremely expensive to remove. Similarly, were Britain to abolish nuclear power, the cost of decontaminating the land on which Sellafield is built could not reasonably be restricted to the relatively small number of people living close by. In such cases the company concerned should to pay to restore the land when they have finished using it. It is, of course, hard for councils to persuade firms, particularly bankrupt firms, to do this when they leave an area. In future they should instead be given the right to require that firms post a bond with them at the outset to cover the costs of restoration when they leave.

This payment would be part of the replacement for payments made during planning permission under section 106 of the Town and Country Planning Act 1990, and would give councils a greater incentive to permit development, knowing that the costs of decontaminating land would be covered in the long run. Without the need to pay to clean up derelict land, central government could reduce the rate of corporation tax. Firms that inflict less damage should gain, while those that contaminate land should lose. In any case, all firms will pay the true costs that they impose on society.

Continued funding to remove dangerous mine workings should be seen as a special case. All areas will have some contaminated land, and all will have at least a little bit of very contaminated land. An area would only be eligible for direct government funding if it had an especially large amount of such land. Former coalmining districts would be the obvious beneficiaries, though everywhere would have the right to put forward a case.

Areas would not be eligible for additional funding simply because they are remote. People are free to choose where they live, and it is almost invariably better for individuals to meet the costs of their own decisions rather than society as a whole. Remote areas generally have more limited access to broadband, for example, but those living in Brixton have to pay more for their house insurance. It is not the job of governments to equalise the cost of every item across the country. As countries like Ghana found when they tried this, it is a disaster.[78]

This new funding stream would not have strings attached. Local councils would not be answerable to central government for how they spent it; instead they would be accountable to local voters through the ballot box. It is called democracy, and as Churchill said, it is the worst system except for every other one that has been tried.[79]

Funding regeneration in this manner would require the abolition of all grants to organisations such as regional development agencies (RDAs). This does not mean, however, that RDAs would be abolished. They have the potential to act as advisers to local councils and to implement policies on their behalf. Local councils rather than central government would become their customer. They will survive and prosper if – and only if – local councils believe that they offer value for money.

77 This will take into account the fact that a 7 year old having no income is different to a 37 year old having no income, and different again to a 77 year old with no income

78 Rimmer D, *Staying Poor: Ghana's Political Economy, 1950-1990*, Pergamon Press, 1992

79 "Many forms of Government have been tried and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time." Speech in the House of Commons, The Official Report, House of Commons (5th Series), 11th November 1947, vol 444, cc 206–07

12

What would cities do?

We have been very clear that it is not the role of London-based consultants to tell individual towns and cities what to do. This chapter does not seek to offer a blueprint, and certainly does not claim to offer solutions that will work in every city in the country. Instead it seeks to report back on what has worked elsewhere, and on interesting ideas that people around Britain have told us that they would like to try if only the rules allowed. We do not propose, therefore, that local councils should do all or any of the following, only that these are ideas that they should be able to consider. In all cases, local councils would be spending their own money, which they would have complete freedom to use as they saw fit. And they would be completely responsible to their electors, who would judge them on what they have achieved.

The first thing that all councils should do is to make a realistic and hard-headed assessment of their area's position and its potential – its strengths, weaknesses, opportunities and threats faced. At the moment, local councils like to portray themselves as being in a pitiful state, but one that would be transformed if only central government were to fund a business park, high-speed train, new town centre or cultural quarter.

And whatever settlement is received, local authorities have every incentive to tell residents that it is so inadequate that nothing can be expected of them. Councils behave like this not because they are dishonest, but because they are almost entirely dependent on central government grants.[80] Today many councils have regeneration objectives that bear little resemblance to any possible reality. It would be invidious of us to name particular towns, but we have been left in no doubt that council leaderships believe that it is unacceptable for them to paint anything other than a bright, indeed often absurdly bright, picture of the future. Equally, consultants have told us tales of writing regeneration visions that they know cannot be delivered. As one remarked, the council is the customer, and we all know that the customer is always right, don't we?

We believe that giving councils greater responsibilities will make them more responsible. We can see this already in the case of the devolved assemblies. The Welsh Assembly Government has, for example, created a genuinely high-quality economic research advisory panel. It includes not just the great and good of Wales, such as Garel Rhys and Andrew Henley, but also draws on expertise from further afield through people such as the former director of the Institute of Public Policy Research, Gerry Holtham, and ex-monetary policy committee member Stephen Nickell – people who will say what they think needs saying, rather than what an audience wants to hear. Thus Holtham's 2002 paper for the Institute of Welsh Affairs "finds a glimmer of hope for Wales amid generally grim tidings".[81]

The panel have produced interesting reports, and offer realistic advice. Most recently, they have asked whether it is realistic for Wales to try to capture any of the high value-added industries currently being attracted to the South East, or

80 A good example of this is the introduction of UK-wide free bus travel for pensioners. The Government has assessed how much it thinks the policy will cost councils, but councils have said it will cost more. They may be right or wrong, but the system creates an incentive for councils to claim this however generous the settlement is. "Help hard pressed council taxpayers, town halls urge Chancellor", Local Government Association, press release, 12th April 2008, see www.lga.gov.uk/lga/core/page.do?pageId=329018

81 Holtham G, "Debate: Global Trends", *Institute of Welsh Affairs*, 2002, see www.iwa.org.uk/publications/pdfs/DebateGH1.pdf

"whether it would be more productive to try to identify other activities priced out of the South East of England and try to attract them to Wales".[82] These are sensible questions, and the willingness of the Welsh Assembly Government to ask them demonstrates that devolving power creates greater responsibility among policymakers.

Having come up with a realistic assessment, councils then need to think about how to spend their money. Some of the potential policies that we set out here will be very familiar to those in the regeneration industry, but others will be more novel. We do not claim that the following list is comprehensive.

Traditional regeneration policies

Support local industry

A large proportion of local regeneration funding has traditionally been given to firms located in areas of high unemployment. That could continue. It would be perfectly legitimate, for example, for Sunderland council to decide to spend £8 million of its regeneration money subsidising Nissan to build a paint shop. Equally, it would be legitimate to use that money for other purposes if the council believes that, without the grant, Nissan's cost level would still be sufficiently favourable to ensure that it stayed in the area. The Nissan plant means more to Sunderland than to anywhere else. Sunderland knows more about the plant than anywhere else. Sunderland can make the decision better than anyone else. More generally, towns and cities could decide to seek out inward investors, as Łódź did with Siemens and Essen with ThyssenKrupp. There are useful European Union rules designed to prevent wasteful counter-bids between areas for regeneration funds.[83]

Improve business conditions more generally

As well as funding specific businesses, it would be legitimate for councils to spend more on improving conditions for business as a whole. The most obvious way to do this would be by providing business parks. Part of the reason for the North Wales military optics cluster at St Asaph was the provision of a business park suited to the sector. Similarly, councils could offer advice services to existing small and medium-size firms. Again, there are laws to prevent such activities being too heavily loss making, but councils could still decide that this was a sensible way to spend their money. Decontaminating and restoring land also falls into this category, as does assembling large sites in areas of fragmented land ownership. All these policies have been implemented successfully elsewhere – the Ruhr's Triple-Z and Hong Kong's record of successful land assembly stand out as prime examples.

Improve infrastructure

Many areas of Britain have relatively poor infrastructure connections – Hastings is so near to many places and yet so far from all of them. Distance is not the problem, accessibility is. It is not alone in being in this position, and there are many other places that might wish to improve local infrastructure. If Worksop wanted a dual carriageway connection to the M1 and A1, it should have the right to upgrade the A619 or A57. Hull might decide that a fast road or rail route to York offered a good return for its money. Both cases would require co-operation between the councils affected. Vancouver is using the forthcoming 2010 Winter Olympics to gain funding from national and provincial governments for transport improvements such as a high-speed rail link from downtown to the airport.[84]

Improving town centres

There is a long history of physical regeneration in urban economic regeneration, which as we noted in *Cities limited* reached its apogee in the Rogers Report, Towards an Urban Renaissance.[85] It would be perfectly

82 Panel Ymgynghorol ar Ymchwil Economaidd/Economic Research Advisory Panel, *Report to the Welsh Assembly Government*, 2007, see http://new.wales.gov.uk/firstminister/publications/economicresearch/advisory/1971767/ERAPnov07?lang=en, p2, para 2.3

83 It would, however, be illegal under EU law for anywhere else in the UK to try to attract Nissan away from Sunderland by offering a larger grant. This is very useful in this context because it ensures that Nissan cannot expropriate large amounts of regeneration money by persuading towns to enter a bidding war

84 Leunig T and Swaffield J, *Success and the city,* Policy Exchange, London, 2007

85 Urban Task Force, *Towards an Urban Renaissance: The final report of the Urban Task Force, Chaired by Lord Rogers of Riverside*, DETR, 1999

legitimate for councils to decide that an attractive town centre would be an effective contribution to regeneration. Again, we see evidence of this elsewhere – Vancouver has used its zoning plan to ensure that the downtown area survives intact as a mixed-use area, with heritage areas preserved using density trading credits.[86]

Organise local job clubs
A city should also be allowed to put its regeneration money into placement services to get people into work. There is evidence that the New Deal has had some effect and councils should have the right to fund schemes along the same lines. They should have the right to hire state, voluntary or private companies to do this: they are answerable to their electorates and not to any particular government's ideology.

Less traditional regeneration policies
We stated that councils would have carte blanche in deciding what to do with the regeneration money that they are given. There are any number of policies that a council might feel appropriate that would be unlikely to be allowed under the current system. We set out a number of them here. We do not claim either to have listed them all – one of the points of devolving power, after all, is to allow new ideas to be generated – and nor do we claim that all of these ideas should be tried. We simply put them forward as ideas. In each case, these policies are likely to be more attractive in a town that believes that its biggest problem is retaining and attracting a skilled workforce.

Organise national job searches
We have already said that local councils should be allowed to spend their money trying to match local workers with local vacancies. But we go further. If councils believe that many of the people in their area will have better life chances elsewhere, they should be allowed to assist in national job searches. They could identify areas that are either short of labour in general, or of particular types of labour, and invite firms from those areas to visit them for job fairs. They could fund visits to other places, so that local people could get a better sense of what opportunities are available elsewhere. Such places could be within easy commuting distance, or further afield, that would imply migration. Sunderland could offer free metro passes to people taking up work or looking for work in Newcastle. Easington could offer people help in relocating to Eastleigh. None of these options would be allowable today, but if these are what local councils believe to be the best answers to the problems that they face, then the only constraint on their actions should be their electorates.

Provide the services and environment that appeal to high skill workers
It is already seen as legitimate to spend regeneration money on high profile arts spending. The Baltic Centre for Contemporary Art in Gateshead, for example, was designed to make Newcastle and Gateshead vibrant places, attractive to those with high disposable incomes. But however much the urban intelligentsia may wish it otherwise, high art is a minority pursuit even among the affluent. It should be equally acceptable to spend money on other activities that will attract them – such as golf. There is no good reason why it should be legitimate to spend regeneration money on an opera house, but not on a golf course. Both can attract tourists. Both can make a city a more appealing place to live. Whether to do either, neither or both should be up to the council, but it should have the right to make that decision for itself.

Provide better education
We selected golf as an example because it is widely perceived to be a popular activity among the sort of affluent business people

86 Leunig T and Swaffield J *Success and the city*, Policy Exchange, London 2007

that many of our regeneration towns desperately need to attract. But there are many other services that they could offer. Perhaps the most interesting one is high quality education. We have noted that many regeneration cities have lower than average exam results and their schools do not act as magnets to outsiders. It would be perfectly legitimate for a council to decide to spend regeneration money on local schools. Canadian cities have successfully used quality education to attract families to relatively remote places, and Manchester Council has recently underwritten six new academies even though it will not have control over the schools.[87]

The aim would be twofold. First, it would serve to attract those who care most about education – often the well-educated who have benefited from it themselves – to the city. Such a policy could be quite powerful in a town near a more successful city like Manchester, for example. Many of Manchester's most affluent workers live to the South of the city, in Altrincham, Didsbury, Sale and Macclesfield. They do not live in Middleton, Oldham or Rochdale, even though these towns are well within commuting distance. The question these areas might want to ask themselves is not how can we attract firms to our area, but how can we attract high-skill, high-wage people who work in Manchester to live in our area?

Doubling the number of teachers and paying them significantly more would be expensive. But it could make an area very attractive to young families wishing to move out of city-centre flats. Such people bring money with them and at least some of that money stays in the area, where it is spent on local services and supports local jobs. Such a policy would also have a second effect: improving local education standards. Some of those students will remain in the area longer term and, better qualified, they will represent a more attractive workforce for potential employers thinking about where to locate. And if that doesn't work, if the best schools in the country do not attract skilled workers, and if the best educated school-leavers do not attract firms to an area, then the only conclusion will be stark: this is an area whose other problems – most likely intrinsic geography – are so deep-seated as to make it a poor location for economic activity. At very least that town will have equipped its young people with the skills and qualifications they need to get jobs elsewhere. The town may not have been regenerated, but lives would have been transformed for the better – by any sensible measure a successful outcome.

Give your city a unique selling point

Stoke-on-Trent City Council was recently praised in a Communities and Local Government report for the quality of its civic trees.[88] All across Britain parks and street trees are under threat. Local authority budgets are constrained by limited central government grants and apparently unlimited central government requirements on the one hand and people's understandable aversion to council tax rises on the other. Discretionary items such as the upkeep of parks have frequently been victims of harsh cuts. Under the policies that we advocate, cities would have a much greater ability to create a stronger image for themselves. Stoke might want to build on its reputation for tree care to make itself literally the greenest city in the region. City parks could be well funded, and imaginatively landscaped, city streets could be festooned with hanging baskets. We are not saying that Stoke – or any other city – should do this. But we are saying that they should be allowed to do this.[89]

Cut taxes

Finally, local councils should always have the right to use their money to cut council taxes.[90] This would emphatically not be allowed under current rules. There are two

87 See Lim C and Davies C, *Helping Schools Succeed: Lessons from abroad*, Policy Exchange, 2007, Chapter 3, Meikle, J, "Manchester underwrites six city academies", *The Guardian*, 9th January 2008, see http://www.guardian.co.uk/uk/2007/jan/09/politics.localgovernment

88 Stoke-on-Trent Council successfully attracted external sponsorship worth over £100,000 for its tree programme www.communities.gov.uk/news/corporate/698826

89 Vancouver has put in place its EcoDensity green city strategy. Freiburg in Germany is building itself up around green technology (see http://vorort.bund.net/suedlicher-oberrhein/freiburg-environment-ecology.html). Boulder in Colorado and New York's PlaNYC are both attempts to make cities more liveable and green

90 Mid 1990s New York was losing substantial retail activity to out-of-town developments in New Jersey, to counteract this decline and bring retail back to the city, the city removed VAT on all clothing under $100. This has been seen as a very successful way to keep retail in place and played a part in the rebirth of the city

reasons why councils might want to do this. First, it is possible that lower taxes will attract more people and so raise the economic potential of an area. Note that since those on benefits have council tax paid for them, this policy would be a way to try to attract those in reasonably well paid employment or with reasonable retirement incomes, the sort of people who bring money to an area and who may go on to start businesses and regenerate a place.

But there is a second reason why councils might want to use the money to cut council taxes. Some areas are likely to accept the reality, sooner or later, that much regeneration funding does not pass cost-benefit analysis. In those circumstances, voters will, sooner or later, prefer tax cuts to spending that achieves little. If an area is located in a place that makes so little sense under current economic conditions that decline is inevitable, a council may well wish to spend some of the money helping people to leave and some on making the transition more palatable for those who remain. Reducing their bills by £1,000 a year may well be an effective part of the palliative care for those who are unlucky enough to live in towns that are in inexorable population and economic decline. This will not be a popular option for those in the regeneration industry, but it may prove to be very popular with those who have seen regeneration vision after regeneration vision in their area, and wondered, at the end, what has been achieved.

13

Coping with population decline

If the coal-powered, sea-transport based Industrial Revolution led to populations being located in areas that are not ideal for a modern, service sector, road and air-based economy, then allowing significant levels of migration makes economic sense. Since the British population is not growing dramatically – certainly not by 19th century standards – this implies that some areas will experience population decline. In fact this is already happening. Liverpool, for example, has lost almost half its population since its 1931 peak of 856,000. It is not alone in shrinking: half our regeneration towns have shrunk in absolute terms in the last ten years; Merthyr Tydfil, Blackpool, Hull and Middlesbrough have lost more than 5 per cent of their populations.

Population decline is not necessarily desirable. Migration can break up communities and it is often the case that the most enterprising migrate, leaving behind a community that lacks skills and entrepreneurs. We can see that by looking at variations in skill levels by area. That there are more people with high levels of skills in our successful towns than our regeneration towns is not primarily a reflection of the quality of schooling, but a combination of the greater attractiveness of some places to skilled workers and house prices sufficiently high in those places to prevent those with fewer skills from moving there.

Many of those with the least skills live in social housing. The local allocation of social housing makes it very hard for them to move area. That has to change, or those in social housing will be trapped in communities in which the low skilled are already overrepresented, with adverse implications for employment. Clearly no one should be forced to relocate, but we need to allow those in social housing to move from areas of population decline to areas of population growth just as those in private housing can. If we do that, we will have gone some way to preventing population decline in an area becoming synonymous with a deterioration in its skills base.

Migration may lead to uneven age structures because young people are more likely to leave declining areas than the old. This is certainly the case for international migration: those coming to Britain from the accession states of Eastern Europe tend to be young, just as those emigrating to the United States, Canada and Australia a century ago were generally young. But it is, perhaps surprisingly, not true for internal migration. We can see this by looking at the age profiles for different towns. Merthyr Tydfil is losing population faster than any other town in our sample, but its population distribution is little different to that of, say, Windsor. Twenty per cent of Merthyr residents are under 15, compared with 19 per cent in Windsor. Similarly, 16 per cent of Merthyr's residents are 60 or over, compared with 15 per cent of those in Windsor. Merthyr is not a place from which all the young leave, rather the decline in population is spread reasonably evenly over the age distribution.

Population decline should also been seen as an opportunity. There is no particular reason why a city should become less desirable if its population shrinks. Sometimes a regeneration city enjoys a legacy of past investment in infrastructure. Liverpool, for example, has more railway stations relative to its population than any other place in Britain. The amount of open space per person will increase if population falls, even if no additional green space is created.

More generally, a declining population gives opportunities to improve the average size and quality of the housing stock for those who remain or, for that matter, to increase the amount and quality of public space and parkland, as seen in the Ruhr area in recent years.[91] At the moment the Government's standard approach for areas that have falling populations is to demolish housing and rebuild it. Thus the National Audit Office found that the Housing Market Renewal Programme's Pathfinders areas planned to demolish 57,100 properties and build 67,600 new ones.[92] Only three of the nine Pathfinder areas will see a net decline in their housing stock. We believe that this approach is fundamentally misguided. First, the principal reason why house prices are low in each of the micro-areas is indeed likely to be that they are less desirable than other areas. But the underlying cause of low house prices is not poor quality housing, but an inability to generate jobs. If a particular area is transformed from undesirable to desirable, but nothing is done to increase the economic sustainability of the town as a whole, then any gains in population are likely to come at the expense of other parts of the town. A great deal of money, in other words, can be spent simply shifting the problem from one neighbourhood to another nearby. The 2007 National Audit Office report on housing renewal commented: "There is no guarantee that intervening in the housing market in this way will address the causes rather than the symptoms of the problems experienced in these neighbourhoods."[93]

If an area has structurally low economic potential then the housing stock needs to fall. But in general that should not mean demolition, which has at least four drawbacks. First, it involves spending significant sums of money on destroying assets that have potential value. Secondly, the prospect of demolition can and does blight a neighbourhood: people planning for the long-term will not move to the area. As such, the threat of demolition will increase the transient nature of that community, as well as leading to more empty homes. Thirdly, when owner-occupied property is demolished in a period of rising house prices, the lag between a price being agreed and the owner buying a new property leaves the owner out of pocket, by an average of £35,000. That cannot be right. Finally, speculators often move in to areas in which demolition is predicted, bidding up prices and making demolition more expensive. Using freedom of information legislation The Times found that the Government had paid an investor £450,000 for an end of terrace house in Manchester, more than twice the price paid for any other property in that road.[94]

There will be occasions in which demolition is the right way forward, but where property is structurally sound these will be exceptions rather than the rule. In general, when a house is valued at more than the cost of construction, there are too few homes in the area. In such circumstances, builders want to build more homes, since they can make a profit. In contrast, when a house is valued at less than the cost of construction, there are too many homes in the area. The first lesson, therefore, is that the number of properties should not be reduced in any area where the price of a house exceeds the building cost. Thus recent rises in house prices should lead to a reduction in the number of houses demolished at state expense.

91 Leunig T and Swaffield J, *Success and the city*, Policy Exchange, London, 2007

92 *Department for Communities and Local Government: Housing Market Renewal*, National Audit Office, HC 20 Session 2007-2008, 9th November 2007 see www.nao.org.uk/publications/nao_reports/07-08/070820.pdf

93 Ibid, p 7

94 Ungoed-Thomas J and Waite R, "Ministers pay £450,000 to flatten terraced home", *The Times*, 30th August 2007, see www.timesonline.co.uk/tol/news/politics/article2558168.ece

When property prices fall below the cost of construction there is a case for reducing the number of homes. If this does not happen, property can become worthless very quickly because there is no incentive for any individual to demolish his own house in order to make those of his neighbours more valuable. This is a classic externality and warrants government intervention.

The plan-led system of identifying houses for demolition risks giving speculators a free lunch. They can buy up run down properties safe in the knowledge that the Government will buy them out at very least for full market value, and usually more. The prospect of demolition also blights a neighbourhood. We need to move away from a plan-led system towards a market-led system for working out which houses are least wanted. Here the price signals are remarkably easy to understand: the cheapest houses (taking size into account) are the least desirable, and those are the ones that Government should be taking out of supply.

It would be possible for the Government simply to demolish the houses (although not the flats) that it buys in this way, creating small green spaces scattered across the city as happens in the Ruhr.[95] But in general demolition is not the right way forward because demolishing a house destroys something of value. We need to find a way of reducing the number of houses without destroying the houses themselves. The obvious answer is to merge houses laterally so that the people who remain in the city that is witnessing a fall in population end up living in bigger houses, at no cost to society.

Let us imagine a row of terraced houses, of the sort that are widespread in many regeneration towns. One comes up for sale, at a low price. At this point the state should step in, and consider buying it. It would approach the two people who live on either side of it, and ask them whether they would like it. Let us assume for simplicity that one says yes, and one says no. At that point the Government will buy the property, and sell it to the neighbour. Given that regeneration communities are generally poorer than others, it is unlikely that the neighbour will have the capital to pay for any proportion of the house outright. Instead the state would own a proportion of the new, larger house, rather like a mortgage charge. No rent or interest would be payable, but when the new larger house is sold, government would gain at least some of its money back. The new resident would be responsible for all the alterations necessary to merge the two houses. Of course, many of the new, larger properties would be rather odd in layout and design. At least initially, many would retain two staircases, two electricity and gas supplies, and so on. But for many poor families, living in relatively cramped conditions, being given a larger if oddly designed property for the cost of creating an internal doorway or two would be a very attractive prospect. Over time, when the electrics needed renewing, the gas boiler replacing or the kitchen refurbishing, the house would gain a new, more unified structure.

> “We need to move away from a plan-led system towards a market-led system for working out which houses are least wanted”

Apart from a payment in the form of a share of ownership, there would be only one condition for taking over a neighbouring property in this way: that the formerly separate house must be merged with the new house. It must not be let separately or sold as a separate dwelling. The Land Registry deeds would be changed to reflect this. The planning system requires that a houseowner gets planning permission to subdivide a property and that would not usually be given unless local economic

95 Leunig T and Swaffield J, *Success in the city*, Policy Exchange, London, 2007

circumstances had changed dramatically. In those cases the State would have the right to all of its investment back.

In general the Government should not be selling property acquired in this way to landlords. In those circumstances we would expect the new (larger) property to be re-let to a larger number of people, which would defeat the purpose of reducing the supply of housing. If landlords wanted to buy the house next door, then they could do so simply by outbidding the Government.

There will be times when neither neighbour is interested in having a larger property. In those cases the State would not buy the house concerned, but instead allow it to be sold in the normal way for a market price. The State would wait for the next house to become available and again approach the neighbours to see whether they would be interested in a larger property. So long as a reasonable number can be acquired like this, the downward spiral of house prices can be avoided.

Sometimes both neighbours would be interested in a larger house. In that case either the house being bought by the State can be shared between them or it can be auctioned. As time went on the Government would learn the usual proportion of the new house that it would be offered, and would decline to buy houses when neighbours offered lower proportions, as well as when the neighbours declined to buy the property altogether. It is impossible to know ex ante the proportion of the larger house that the Government would be offered in general, or how much the value of the house would increase as a result of being larger. We cannot say, therefore, how financially effective the scheme would be. That said, we would not expect it to be profitable: if it were profitable, it would be happening already on its own, without government intervention.

Although not profitable, the scheme is attractive at many levels. First, it avoids the costs of demolition and, when the house is sold, the Government gains a proportion of its value. Secondly, it avoids compulsory purchase and all the upset it causes to those people who, for perfectly legitimate reasons, do not wish to move. Thirdly, it avoids all the problems of blight that occur when an area is marked for wholesale demolition. Finally, some people will get to live in bigger houses at no cost to society and only trivial costs to themselves. Regeneration cities are not known for large houses, so an increase in the size of some houses is likely to be welcome and will improve local living standards.

14

Improving governance

We have proposed giving large sums of money to local authorities, with no strings attached. The risk is that it will not be spent effectively. The fact that central control over regeneration funding has failed does not guarantee that local control will succeed. In short, there is a danger that Britain's "caged hens" will become "headless chickens", unable or unwilling to implement policies that work. We need to ensure that local authorities have the incentive and the expertise to use the money wisely.

Currently, central government tends to provide the incentives to follow particular policies. It sets targets, and measures the extent to which local authorities meet them, whether they are for school performance or recycling. That is not the model that we are advocating, indeed we think it stifles local initiative and local choice.

Instead we want local authorities to be responsible to local people. That is easy to say, but self-evidently not so easy to achieve. It is outside the scope of this paper to offer proposals for radically restructuring councils but nevertheless there are some obvious areas that can be improved.

Local authorities are elected bodies and are ultimately responsible to local people through the ballot box. But outside the devolved areas, accountability is limited by their lack of power. Giving more power to local government will improve the quality of local governance in four ways. First, it will increase local accountability because people will know who to praise and who to blame. At the moment local authorities can always excuse poor services or high taxes by blaming central government because it is so dominant. Very often – though not always – they are right, but the important point is that voters cannot tell when they are right and when they are passing the buck. Giving them more power means that the excuses will no longer wash, and voters can better judge the quality of local leadership.

Secondly, many councillors are aware that electoral success depends on claiming responsibility for good things that would have happened anyway, and blaming central government for anything that goes wrong. Once they know that they will be judged according to their genuine performance, they will have a greater incentive to get the fundamentals right instead of wasting time on spin.

Thirdly, giving local authorities more power increases the attractiveness of a career in local government either as a councillor or as a council officer. No longer will your primary responsibility be to cope with a deluge of instructions from Whitehall, but rather you will have the power, and the resources, to shape your community. It is likely that this will increase the range and quality of people willing to serve in local government at all levels. That in turn will improve performance.

Fourthly, giving local authorities more power will increase the range of policies that are tried, generating evidence about what does and does not work. This evidence can be used both by social scientists and those interested in evaluating policy, and by voters. If the voters of Blackburn see that Burnley is doing manifestly better than their town, they can ask why this is. It may be that Burnley is lucky enough to be home to the next James Dyson, but it might be that its policies are better, and that the party in power – or in opposition – in Blackburn can and will learn from Burnley.

Two of the greatest incentives for elected politicians are the prospect of gaining office and the fear of losing it. For that reason it is hard to believe that a city in which a party – any party – will never realistically lose control is good for politicians' incentives. Although there are examples of "one-party states" at local level that are effective, in general being guaranteed power come what may is not good for effective governance. This is as true in Britain as in one-party states in sub-Saharan Africa. And one-party councils are all too common in areas needing regeneration.

It is not the purpose of this paper to suggest wholesale reforms to the structure of local governance, but we do think that Britain should be open to significant levels of experimentation. Here we note with approval the Scottish Assembly's decision to adopt the single transferable vote system of proportional representation for local government. It is not that we believe that this system is better than others, but rather we believe that trying this system will allow us to see whether it is more effective. It is possible – and indeed likely – that it will curtail one-party rule in many places. If so, it has the potential to improve the quality of governance. But it is equally possible that it will lead to permanent coalitions between the same parties, election after election, which would do little to increase the discipline placed on politicians by the ballot box. It is too early to tell whether the new voting system will increase the accountability of councils to their voters, but it is an experiment that should be supported and whose effects should be studied hard.

Let us imagine then, that local government has considerable powers that they can use to better or worse effect. Let us also suppose that the voting system presents the ruling party with a realistic chance of losing office, and offers at least one other party a realistic chance of gaining office. What we now need is a system that allows local people to make well-informed decisions whether to re-elect an incumbent or not.

Here Britain starts with two tremendous advantages: the Audit Commission, and the local press. The Audit Commission already reports on the performance of almost every aspect of local government. It does so thoroughly, objectively and apolitically. And yet virtually no one knows how the Audit Commission ranks the council on any measure.

There are two reasons for this. First, there is a perception that it is pointless to know. Many local councils are one-party states, so knowing that they are badly run does not allow you to change anything. We need a voting system that enhances contestability. Secondly, the Audit Commission is not currently set up to explain their findings to a wide audience.

This can and should be changed. We want to see the Audit Commission enhance the democratic process by spending much more time explaining its findings. It should do so in public, with formal committee hearings in every council in Britain, in which councillors of all parties can grill those who wrote the report. What is the evidence for this conclusion? What is the basis of that conclusion? What is it that others, who you say have done better than us, have done?

But this should not be limited to formal hearings in council chambers. The Audit Commission should also make itself available to explain its findings, in person, to each and every political party represented on the council. Councillors will not all be experts on regeneration, and they need the opportunity to ask for things to be explained to them in private, in the way that ministers are briefed by civil servants. The same is true for council officers, for whom neutral Audit Commission briefings that compare their performance with their peers can be a very effective way of disseminating best practice.

We should not stop there. Britain has a remarkably vibrant local press, capable of engaging with serious local issues. The Audit Commission needs to brief the local press, again in private and in person, on what their findings mean. We need seminars in which local journalists can explore exactly what the Audit Commission is saying, for better and for worse.

Even then, there are more groups for the Audit Commission to engage with. They should be willing to discuss their findings with any community group that wants to find out more. There are a myriad of local groups: the local rotary club, the church, synagogue and mosque, a school PTA, a tenants' association, a local residents' group, the WI. It doesn't matter who they are, the Audit Commission needs to engage with any part of civil society that wants to hold local government to account. And not only that, the Audit Commission must actively seek out civil society across Britain and engage with them, presenting information in a way that allows them in turn to hold local government to account.

Here the local media have an important role. Britain is lucky to have exceptionally high quality local media. Most local newspapers in Britain make real efforts to cover local stories properly and to understand the issues at stake. Unlike national newspapers, they rarely have strong a priori political affiliations. They are thus well placed to disseminate well-presented information from the Audit Commission and other sources to their readers.

The same is true of BBC local radio and of both local BBC and independent television news programmes. In all cases these programmes are protected to some extent from competition and have formal mandates to cover local news. They have the staff and the budgets to make a good job of understanding the issues and explaining them to people in the area.

Finally we should also make it easier for individuals to find out more about what is going on and whether regeneration schemes are delivering good value for money, and achieving their aims. To that end, the power of freedom of information legislation needs to be bolstered so that interested individuals can find out, in a straightforward and timely manner, why a council decided on a particular approach or policy, why they awarded a contract to a particular company or organisation, and the results achieved as a result of the money spent. Although both the Audit Commission and the local media have important roles to play, sometimes there is no substitute for someone local and determined, who knows what is going on and can sense that a project is poorly conceived or poorly delivered.

Of course, none of this will prevent politicians of every hue trying to spin every finding in the way that suits them. But the more people who know more of the truth, the less politicians can get away with partial representations of the truth, or worse. If we are to hold local government to account, we need citizens to be well-informed, and able to act on that information.

15

Conclusion

We have set out a new agenda for regeneration policy. We do not claim that, if acted on, every town or every region can be regenerated. Instead we argue for a much more hard-headed analysis of the potential of towns that are struggling and an acceptance that at least some of them have little prospect of offering their residents the standard of living to which they aspire. Towns that were once in the right place at the right time, may now well be in the wrong place at the wrong time, severely restricting their ability to attract jobs. No one is suggesting that residents should be forced to move, but we do argue that they should be told the reality of the position: regeneration, in the sense of convergence, will not happen, because it is not possible.[96]

> “We believe that the Government should roll up almost all current regeneration funding, and allocate it according to need”

Furthermore, we do not believe that it is acceptable for planning policies to constrain internal migration as tightly as they do. At the moment restrictions on house building in the South East mean that it is very difficult for those without very well paid jobs to move to the area. Those with lower levels of skills are trapped outside Britain's most prosperous region, particularly if they live in council housing. That cannot be right and we should not accept it. We have argued that there are many ways to make greater levels of house building acceptable to people in the South East, all of which revolve around providing local authorities with greater self-funding financial incentives to support development.

Not every struggling town has a bleak future. The critical issue is market potential. Some areas that are struggling could be well connected to successful areas. Such places have much greater economic potential than those places that are intrinsically more isolated. Coastal cities, whether large like Liverpool and Hull, or small like Scunthorpe and Blackpool are most vulnerable. All have accessibility problems in a road-based era, because they are almost always at the end of the line. Our largest coastal cities are generally large for a reason that has disappeared: ocean-going shipping, and ship building. They have lost much of their raison d'etre, and it is hard to imagine them prospering at their current sizes. Sunderland demonstrates just how hard it is to regenerate such a city.

We argue that all towns and cities, whether we believe them connectable or not, should have the right to determine their own policies. We believe that the Government should roll up almost all current regeneration funding, and allocate it according to need. Areas would then be able to spend the money on traditional regeneration schemes if they believe that those regeneration schemes will deliver value for money. Or they would be allowed to spend the money on less conventional regeneration schemes, including deliberately setting out to attract highly skilled workers from elsewhere, and facilitating local people's search for work in other, better

96 Given the geographical composition of trade in the global economy which is determined by embedded spatial and skill based wage inequality, see Krugman's conundrum: "The elusive link between trade and wage inequality", *The Economist*, Economic Focus, p92, 19th April 2008

placed, locations. And, if they really believe that there are few prospects for their area, whatever policies are followed, they should be able to spend the money on palliative measures, improving the quality of life for those people who, for whatever reason, cannot or will not move. Such people must not be forgotten.

That increase in freedom needs to come with a big increase in accountability. Local people must be able to judge the success or otherwise of their council, and must be able to act on their judgement. That means that councils must be assessed regularly and accurately, and that the results of such assessment must be explained to local people in a way that simply does not happen at the moment. It is no good an assessor knowing whether a council is doing well or badly, we need local people to know the answer as well.

Crucially, we need local people to be able to act on what they find. We need local government to be important enough that people bother to find out who runs the council, and how well they are doing. And we need an electoral system that makes each and every council genuinely contestable between at least two parties, or groups of parties. No party should ever be able to take the electorate for granted. When local government has power, and when elections can change how an area is run, then we can expect local people to vote and to hold politicians to account.

A genuine and honest assessment of connectability and potential; the freedom to make and implement policy; and the discipline of real accountability to real people: these are the basis for regeneration policies that will work.