



Cities, agglomeration, housing and the north
Member briefing July 2014

Agglomeration (noun) : *A mass or collection of things; an assemblage.*
(Oxford English Dictionary)

The Chancellor of the Exchequer made a [speech last month in Manchester](#)¹ calling for a 'northern powerhouse' as an additional pole for the UK on the world stage. According to the Chancellor, *"In a modern, knowledge-based, economy city size matters like never before"*. His solutions included a 'HS3' railway line linking Manchester and Leeds, intended to bring the string of cities from Liverpool to Hull closer together. His intention is to *"bring the cities of the north together as a team"* in order that they can compete on the World stage.

A week later, it was the turn of the Leader of the Opposition to use the 'powerhouse' term. [Speaking in Leeds](#)², Ed Miliband called for *"Powerhouse economies"* based on city or county regions. His headline policy, based on the findings of the Adonis Growth Review, is to give Combined Authorities covering these areas control of business rate revenues.

Both these developments build on the evolution of the cities agenda over the course of this Parliament, including the introduction of City Deals, and the consequent moves to form four more Combined Authorities in the North, replicating the existing Greater Manchester Combined Authority.

UK cities : From problems to solutions

The apparent cross-party consensus that our larger cities offer great opportunity is all the more remarkable given the recent history. The academic Ivan Turok has traced the change in the perception of UK cities. He notes that *"For many years, cities were perceived by UK governments to be victims of economic decline, sources of social breakdown and places of environmental decay... This antiurban ethos has been turned on its head in recent years. A new urban narrative has taken hold, with cities portrayed as centres of economic dynamism and places that can help to solve many contemporary challenges"*³

There has indeed been a remarkable change in the way that the North's largest cities are regarded. This is perhaps best illustrated by looking at attitudes towards the City of Liverpool. Michael Heseltine has written about the *"Deep, intractable social and economic issues"* he encountered in Liverpool in the aftermath of the riots in the early 1980s. Three decades later, and his 2011 report with Sir Terry Leahy is far more optimistic. He writes that *"Liverpool is not the source of despair it once was"*. Noting that *"The opportunities, and the self confidence of those who seek to grasp them, are of a different and altogether more encouraging nature than would have been reflected in a snapshot of such opinion in the 1970s and 1980s"*⁴.

¹ 'Chancellor: We need a Northern powerhouse' <https://www.gov.uk/government/speeches/chancellor-we-need-a-northern-powerhouse>

² 'Mending our fractured economy - Ed Miliband & Lord Adonis' :

' <http://press.labour.org.uk/post/90391647579/mending-our-fractured-economy-ed-miliband-lord>

³ 'A New Policy for Britain's Cities: Choices, Challenges, Contradictions' Ivan Turok, Local Economy Vol 23, No.149.

⁴ 'Rebalancing Britain: Policy or Slogan: Liverpool City Region, Building on its strengths: An Independent Report' Michael Heseltine and Terry Leahy, 2011.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32080/11-1338-rebalancing-britain-liverpool-city-region.pdf

This domestic confidence in cities is not unique to the UK. There is growing international focus on the city as a spatial unit. Two recent books have popularised this policy debate.

Glaeser : The Triumph of the City

Harvard urban economist Ed Glaeser is a big fan of agglomeration. His 2012 book claims the city is “*our greatest invention*” and one which has made us richer, smarter, greener, healthier and happier. If you caught Evan Davis’ recent BBC mini-series ‘*Mind the Gap*’, you’ll find Glaeser’s arguments familiar. In his view, the concentration of activity in cities enables collaboration, innovation and competition. This scale in turn delivers greater returns, enabling more social and economic mobility.

Glaeser also argues that dense cities make for better environmental policy. Far from cities being dirty and polluted, he argues they actually offer the chance to live with a much lower carbon footprint – density allowing for walking or cycling to work, for example. He is enthusiastic about cities growing upwards, rather than outwards, to increase density.

In Glaeser’s world, not all cities will be winners. He is disparaging of attempts to turn around cities like Detroit with large external investments, arguing that the future for such cities lies in allowing the population to decline to a sustainable level. He terms this ‘*shrinking to greatness*’. This is reminiscent of some of the Policy Exchange work on cities policy, and indeed Glaeser was the headline speaker at a recent Policy Exchange post-industrial cities conference.

Bruce Katz : The Metropolitan Revolution

One criticism that has been levelled at Ed Glaeser’s book is that, while it is heavy on policy prescription, it doesn’t provide much of a guide to implementation – there’s little consideration of politics. The Brookings Institute’s Bruce Katz takes a different approach, arguing that it is the political process itself – manifested in increasingly sclerotic national government – which provides a huge opportunity for cities. As central governments struggle with the costs and challenges of demographic change and political gridlock, Katz predicts a ‘metropolitan revolution’, with cities pulling responsibility down and taking control of their own economic success.

Katz focuses on innovation, and notes that the geography of innovation is moving towards cities. Whilst previous generations innovated in suburban garages or remote science parks, today’s innovators are to be found in dense city centres. Crucially for the North, he notes that this phenomenon isn’t limited to global cities like New York and London – indeed his case study for this type of ‘innovation district’ is downtown Detroit, where a combination of cheap office space and anchor civic institutions is allowing innovation to return to the motor city. Elsewhere, he has highlighted the success of smaller European cities such as Eindhoven.

Katz’s work is informed by his experience in the US Federal Government, his work for the Obama administration, and working with state, regional and municipal leaders around the world. This naturally results in more focus than Glaeser on *how* to make the most of the revolution he

observes. Katz profiles the regional collaboration which has taken place in Denver, Colorado, with local leaders from the city and surrounding suburbs cooperating in ways which may sound familiar to those in Greater Manchester.

One part of Katz's prescription which may prove more difficult to transfer to the UK is his call for cities to wring more value out of the local market. In the US context, examples are given of referendums on tax rises to fund regional transit in Denver, and collaboration between charitable foundations in Cleveland, Ohio. At a Northern Housing Consortium member engagement event he attended last month, Katz was asked how replicable such models are in the UK. He accepted that this would be more challenging in the UK, but argued that it is the responsibility of cities to make the most of what devolution there is (e.g. through City Deals) in order to attract more powers. Providing examples of success will encourage systemic change, and as government seeks to absolve responsibility in some areas, power will surely follow the downloading of responsibility.

Manchester Independent Economic Review

As part of the Manchester Independent Economic Review, [a 2009 report looked at the Case for Agglomeration Economies](#)⁵. This report's call for a 'bi-polar' economy outlines many of the themes later picked up by the Chancellor in his June 23rd speech. The report is highly relevant to this debate for two reasons. Firstly, it makes a clear case for agglomeration economies in the North, in this example centred on the City of Manchester. But it also discusses the impact that an agglomeration economy will have on a northern city, and the policy responses that may be necessary as a result.

Manchester's case as the second pole of agglomeration is made on the basis of its high productivity – higher than any city outside London except Bristol, which the report dismisses due to its small size and peripheral location. The report focuses on a number of factors which may impede Manchester's economy from producing the increasing returns to scale one would expect from agglomeration. These are skills, transport links, and –crucially for our sector – availability of housing and commercial land supply.

The report warns that in an extreme case, those who live in the city could find the higher incomes associated with living in a larger and more productive city completely offset by higher housing costs. It also warns that higher housing costs may discourage people who could make a useful contribution to the city, and increase agglomeration benefits, from relocating. This may either result in the city losing their talents altogether, or in them commuting from elsewhere, placing further pressure on transport links. Rising housing costs are also bad news for the essential workers on lower or fixed incomes – particularly in the public services – that a city needs to thrive.

The report finds a significant disconnect between demand and supply of housing within the Manchester City Region, and makes a number of challenges to policy makers, including questioning whether the type of housing being developed is right for demand, whether the attention paid to developing mixed communities is reflected in a city's ability to attract and retain skilled workers.

⁵ *The Case for Agglomeration Economies* Manchester Independent Economic Review <http://www.manchester-review.org.uk/projects/view/?id=718>

What else is going on?

The City Growth Commission – hosted by the RSA, the [City Growth Commission](#)⁶ is led by economist Jim O’Neil, who served on the Manchester Independent Economic Review alongside Ed Glaeser. It is investigating what is necessary to allow the UK’s cities to thrive, focussing on skills, infrastructure and devolution. Again, it is predicated on the notion that growth in cities benefits everyone, and that the UK has untapped potential in many of the urban areas outside London. A series of reports are planned by the Commission. The first two, which focus on an outline of the case for ‘metro growth’ and a more detailed report on skills, are [available to download from their website](#)⁷. Further reports on infrastructure and fiscal devolution are expected.

The Commission has held a ‘chatham house’ roundtable on housing, and whilst firm recommendations on housing are yet to emerge from the commission, they have [published a three phase ‘menu’ of ideas they are considering](#)⁸. These focus on:

- Stimulating the public appetite for housing, through a focus on young people, quality architecture and linking housing to public services development
- Policy changes to stimulate new homes, through planning and tax reforms, and potential garden cities
- Additional measures such as ‘greenbelt swaps’ and tackling empty homes.

The Commission will close this Autumn, but intends to influence all political parties in the run-up to the General Election, with the intention of stimulating a significant shift in power from central government to cities.

The Adonis Growth Review

Former Transport Secretary Lord (Andrew) Adonis was commissioned by the Labour Party to conduct a major review of growth and economy, supported by the think-tank Policy Network. [The final report – ‘Mending the Fractured Economy’ was published in early July](#)⁹, and whilst it has a very wide scope extending into industrial strategy, it does make some interesting and important recommendations for cities, which Adonis wishes to see become ‘*magnets of new and better jobs*’.

In particular, Adonis wants to see:

- Devolution of Business Rates to Combined Authorities (CAs), with consequent reductions in government grant, though allowing CA’s to retain additional income

⁶ <http://www.citygrowthcommission.com/>

⁷ <http://www.citygrowthcommission.com/publications/>

⁸ *Feeding our Hunger for Homes* <http://www.citygrowthcommission.com/feeding-our-hunger-for-homes/>

⁹ *Mending the Fractured Economy: Smarter State, Better Jobs. Final Report of The Adonis Review* <http://www.policy-network.net/publications/4695/Mending-the-Fractured-Economy>

- Reformed Local Enterprise Partnerships (LEPs) with a clear remit from central government, independence from local authorities and with stable funding and a stronger role in local growth plans.
- The establishment of further combined authorities, covering city and county regions, on the same geography as the respective LEP
- A £6bn annual fund for city and county regions for skills, employment, infrastructure and business support. This would be triple the amount currently allocated through the 'single pot'

Throughout his report, Adonis refers to 'city and county regions', and it appears these powers would be available to all areas, subject to them agreeing upon a Combined Authority arrangement. Whilst this does ensure equality of opportunity for all areas of the North, we should recognise that our major cities are much further down this road already, and some measures (such as the Business Rates proposal) will have more impact in cities than elsewhere.

The Heseltine Review

Published earlier in this Parliament, Lord (Michael) Heseltine's growth review – '[No Stone Unturned](#)'¹⁰ is another wide-ranging review of economic growth, in this case for the coalition government. There is not space in this briefing to reproduce or analyse the report's numerous proposals, but it is worth noting how one of the report's major recommendations has evolved.

The Single Local Growth Fund had its roots in the Heseltine Review. Whilst the final size of the pot - £2bn per annum – pales in comparison to the £49bn over 4 years called for by Heseltine, and much of the pot was already influenced or allocated locally. However, it is lauded by government ministers, and there are promises of more cash in future. It has been picked up by Adonis, who proposes to 'triple' it. These may be small steps, but the direction of travel is clear – and it is towards city governance and away from Whitehall.

ESPON

ESPON is a project funded by the European Union and focussed on territorial development. It has a number of strands, one of which focuses on the role of second tier cities, and is led by Liverpool John Moores University.

The approach of this project is to acknowledge the virtues of agglomeration economies, but also their disadvantages. For example, national capitals can become too dominant, and the negative results can emerge when cities become too crowded, or infrastructure fails to keep pace with growth.

¹⁰ *No Stone Unturned in Pursuit of Growth: The Heseltine Review*: <https://www.gov.uk/government/publications/no-stone-untuned-in-pursuit-of-growth>

[The ESPON study](#)¹¹ looks at 124 second tier cities across Europe, which between them account for 80% of the continent's population. In the UK context, as you would expect, it finds London to be dominant - in fact of EU member states, only Hungary has a capital which is more dominant within the urban hierarchy. This dominance is not what academic models would predict - [Centre for Cities](#)¹² [has produced interesting modelling](#) suggesting that Northern cities would have to grow significantly if they were to conform to the standard academic rule of thumb on city size distribution known as *Zipf's Law*.

Despite London's current dominance, ESPON finds some cause for optimism for the UK's second tier cities - during the boom years to 2007, 5 of the 13 second tier cities considered achieved economic performances which outstripped the capital, though they were all hit by the recession.

In a case study of Leeds, ESPON finds the city performing well, and notes that it has significant potential for further growth before it would experience diseconomies of agglomeration. However, the report notes that further devolution and powers would help the city's growth accelerate.

Perhaps the most significant finding of ESPON is that the UK is one of few EU nations that, in the form of [Unlocking Growth in Cities](#)¹³ - has explicit policy emerging which is aimed at second tier cities. It notes that it is too early to tell whether City Deals amount to genuine devolution of power, but that they do represent a step in the right direction.

Conclusion: Opportunities and challenges for the North?

Reviewing the various speeches, reports and literature, three fairly consistent themes emerge:

- That second-tier cities offer significant potential for growth through agglomeration
- That these cities need additional powers to maximise this potential
- In the English context, some steps have been made in the right direction, but these are not sufficient on their own.

What does this focus on cities mean for the non-urban parts of the North? This issue is beginning to receive some focus, with the Local Government Association convening a [Commission on economic growth in non-Metropolitan areas](#).¹⁴ It is interesting to see the Adonis report referring also to 'county regions', though the extent to which this represents a major shift in thinking, rather than a sensible political precaution in the run-up to a general election, remains to be seen.

Whilst the majority of the Northern population does live in an urban setting, some of the policy prescriptions proposed - particularly in the field of transport - will not benefit all of that

¹¹ *Second Tier Cities in Europe. In an age of austerity, why invest beyond the capital?*

http://www.ljmu.ac.uk/EIUA/EIUA_Docs/Second_Tier_Cities.pdf

¹² *How big should our cities be?* <http://www.centreforcities.org/blog/2014/06/24/how-big-should-our-big-cities-be/>

¹³ *Unlocking Growth in Cities* <https://www.gov.uk/government/publications/unlocking-growth-in-cities--5>

¹⁴ <http://www.local.gov.uk/non-met-commission>

population. The Osborne speech, focussing on transport links between Leeds and Manchester, raised eyebrows in the North East. It is not yet clear whether a 'Northern Powerhouse' amounts to an attempt to create a string of well-connected prosperous Northern cities, or one single counter-point to London. There is a big difference.

Further, there are limits to agglomeration. A Glaeser-style 'agglomerate or shrink' policy would have significant risks for some cities in the North. Not all cities are in a position to deliver significant organic growth, though as Katz's more nuanced work shows, it is possible at a smaller scale even in downtown Detroit. We need to be clear that some Northern cities will require significant investment to give them the right platform to deliver growth at scale. How that investment is made (by central government, the private sector, or through new powers given to the city itself) is up for debate, but the need for it is clear.

Finally, the focus on the city as a spatial unit may lead to less attention being paid to other spaces. The Sub-National Review conducted by the Brown government concluded that neighbourhood policy was best directed at local authority level, and we have seen retrenchment by Whitehall ever since (indeed, even before that review took place). Ivan Turok picks up this point, and wonders whether cities policy has replaced neighbourhood (and regional) policy as a focus for policy-makers. Whilst the North has much to gain from devolution, it would be a big shift for the sector if like neighbourhoods, housing policy becomes viewed as another issue which is best – or solely - tackled at city level.

The shift in the perception of cities and the northern regions as opportunities, rather than problems, is welcome and long overdue. The challenge for the housing sector in the North is to think ahead to ensure that housing is seen as a key part of that opportunity, and that all our communities benefit from this change.

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