

## Private sector cities: A new geography of opportunity

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England urgently needs to grow its private sector economy and create more private sector jobs. Cities and their hinterlands are home to more than 75 percent of England's private sector workforce and they will be the key centres for future growth. But in order to unlock the potential of our cities and increase private sector growth, the coalition Government will need to adopt a radical new approach to economic development.

Globalisation and technological change have reshaped the geography of private sector growth in our economy so that some cities are now much better placed than others to generate private sector jobs. Through no fault of their own, many struggling city economies – including places like Stoke and Burnley – are no longer capable of generating enough private sector jobs for the number of people living in them.

Meanwhile, more buoyant cities – such as Reading and Brighton – have been creating thousands of new jobs in the private sector, but need to be expanded further to help businesses and workers take advantage of the opportunities being generated.

Past governments have tried to counteract shifts in the pattern of economic growth in England, but the impact of their efforts has been disappointing. The new Government has said that it also wants to focus on 'rebalancing the economy'. Instead, we think it needs to start working with the tide of change rather than against it, and it needs to ensure that local leaders have the power and the incentives to do that too by following through on its commitment to decentralise.

Together, national and local leaders should adopt a new approach to economic development across the country that focuses on helping cities and their residents adjust to long-term economic change. This shift in thinking will have wide ranging implications, including significant expansion of buoyant cities that are experiencing strong private sector growth and more realistic development of struggling cities that are not creating enough jobs for their workforces.



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### *Implications for the approach to buoyant cities*

- **Start making the case for major expansion in buoyant cities.** There is hostility to further expansion in many of them.
- **Significantly increase house building** by providing stronger financial incentives for local authorities to bring forward land for housing in high demand areas.
- **Make planning rules more supportive of growth**, by reforming brownfield land regulations and being more willing to build on greenfield sites.
- **Prioritise strategic capital investment in buoyant cities** that have the most chance of generating jobs through their expansion.

### *Implications for the approach to struggling cities*

- **Stop claiming that jobs can be provided for people wherever they choose to live.** Lofty policy rhetoric leads to poorly thought out policies and feeds unrealistic aspirations about the growth potential of struggling cities.
- **Change the objectives of built environment policies in struggling cities** so that they focus on improving quality of life for residents rather than subsidising further expansion – for example, of the housing supply or commercial property.
- **Continue to invest in private sector growth, but be realistic about what can be achieved.** Policy makers should still invest in transport and public realm improvements that improve the business environment and support jobs growth.
- **Focus on educational attainment and skills development**, but recognise that people are mobile and will often move if they see greater opportunities elsewhere.



## Introduction

With the general election and subsequent political bargaining now over, the political debate has switched to the serious business of sorting out the public finances. As a complement to this, the UK also urgently needs to grow its private sector economy. Not only will this help plug the gap created by job losses from the recession and impending public sector spending cuts, it will also generate additional tax revenue that can be used to help repair the public finances.

The new Government knows that private sector growth and jobs are important. In his first major speech as Prime Minister, David Cameron explained that Britain has become ‘too dependent on the public sector’ and that we need to revitalise our economy by injecting ‘new life into the private sector’.<sup>1</sup> The Centre for Cities highlighted the problem of the UK’s dependency on public sector jobs in 2009.<sup>2</sup> This new report aims to help the Government understand how it can achieve its goals on private sector growth.

In his speech, the Prime Minister also argued that we need to ‘rebalance economic power across our regions...so that more people have a stake in our success’. As part of the strategy for achieving this, the government wants to ‘give our biggest cities the opportunity to elect executive mayors [that] have real clout to drive projects through’. It also wants to give local authorities a ‘general power of competence [to] make it easier for them to set up banks, develop property, run new services and own assets’. The Centre for Cities has been a long term advocate of greater devolution<sup>3</sup>, and we strongly support the Government’s desire to decentralise.

What this report shows, however, is that rebalancing our economy in the way suggested by the Prime Minister will be an enormously difficult challenge. Though the reforms proposed make sense, on their own they are unlikely to prompt a significant change in the distribution of private sector growth across our economy. Variations in private sector performance are driven by major long term trends like globalisation and technological change, which successive governments have failed to counteract even though they have spent many billions of pounds trying to do so.

We think the coalition should adopt a new approach to private sector growth across the country. Instead of trying to counteract long term shifts in the pattern of private sector growth, policy-makers at the national and local levels should focus on helping cities and the people that live in them adjust to the changing pattern of private sector growth in our economy. This would be a more effective way of achieving the Prime Minister’s goal of creating an economy that provides ‘well-paid jobs, rising living standards [and] the sense that each year we are providing more for our families and moving forward as a country’.

Whichever strategy the new Government ultimately adopts, it is unlikely to be able to rely on a strong private sector recovery across the country. The economy has exited recession, but the strength of economic growth over the short term is uncertain. The latest data release shows that Q1 Gross Domestic Product (GDP) growth was 0.3 percent and forecasts suggest that the economy will grow by 1.3

1. Speech delivered by David Cameron, 28 May 2010, *Transforming the British economy: Coalition strategy for economic growth* [www.number10.gov.uk/news/latest-news/2010/05/pm-delivers-speech-on-the-economy-51147](http://www.number10.gov.uk/news/latest-news/2010/05/pm-delivers-speech-on-the-economy-51147)

2. Larkin K (2009) *Public Sector Cities: Trouble Ahead* London: Centre for Cities

3. Marshall A & Finch D (2006) *City Leadership: giving city-regions the power to grow* London: Centre for Cities

“Centre for Cities has been a long term advocate of greater devolution, and we strongly support the Government’s desire to decentralise”



percent in total during 2010, which would be below trend.<sup>4</sup> Although the labour market performed better than expected over the course of the recession, with unemployment stabilising from autumn 2009, it remains fragile and conditions have not yet started improving significantly.

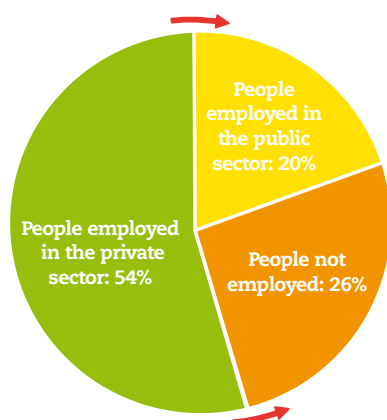
Cuts in public spending will now also start to impact on growth. George Osborne has already announced £6.2bn of cuts that will take effect in 2010/11.<sup>5</sup> As the Government has already acknowledged, these are modest in the context of the overall reductions in spending that will be needed to put the public finances back onto a sustainable footing. Reducing the fiscal deficit is the top priority for the new Government and considerably more drastic spending cuts are inevitable when the emergency budget is announced by the Chancellor on June 22<sup>nd</sup>.

One certain side effect of the cuts in public spending will be a contraction in public sector employment. As the Centre for Cities showed in a 2009 report, many of England's cities have benefited from significant public sector jobs growth over the past 10 years. Overall, the public sector accounted for about two-thirds of jobs growth in UK cities between 1998 and 2007. Almost all cities saw a significant increase in the size of their public sector, with some of the biggest gains seen in places like Gloucester and Sheffield.

In other cities, such as Birmingham and Burnley, growth in the public sector also helped to compensate for a significant decline in private sector employment.<sup>6</sup> Going forward, of course, the situation will be very different. Our report estimated that up to 290,000 jobs could go from the public sector over the course of this Parliament. Other estimates have put the figure closer to 500,000.<sup>7</sup>

Against this difficult backdrop, one of the key economic policy priorities for both cities and national government over the next decade will be finding ways to increase private sector jobs growth. New private sector jobs will be needed so that cities can avoid further large increases in unemployment as the public sector begins to contract, to generate employment for those people who lost their jobs during the recession and to create opportunities for those who were unemployed before the recession even began (Figure 1).

**Figure 1: Share of public and private sector jobs (2008)**



Source: NOMIS 2010, Annual Business Inquiry, workplace analysis (2008 data).

4. HM Treasury (2010) *Forecast for the UK Economy: a comparison of independent forecasts*, HM Treasury: London  
 5. HM Treasury (2010) *Press Notice: Government announces £6.2bn of savings in 2010-11* London: HM Treasury  
 6. Larkin K (2009) *Public Sector Cities: Trouble Ahead* London: Centre for Cities  
 7. 'Experts predict 500,000 public sector job losses', *Public Finance*, 19 April 2010 [www.publicfinance.co.uk/news/2010/04/experts-predict-500000-public-sector-job-losses/](http://www.publicfinance.co.uk/news/2010/04/experts-predict-500000-public-sector-job-losses/)

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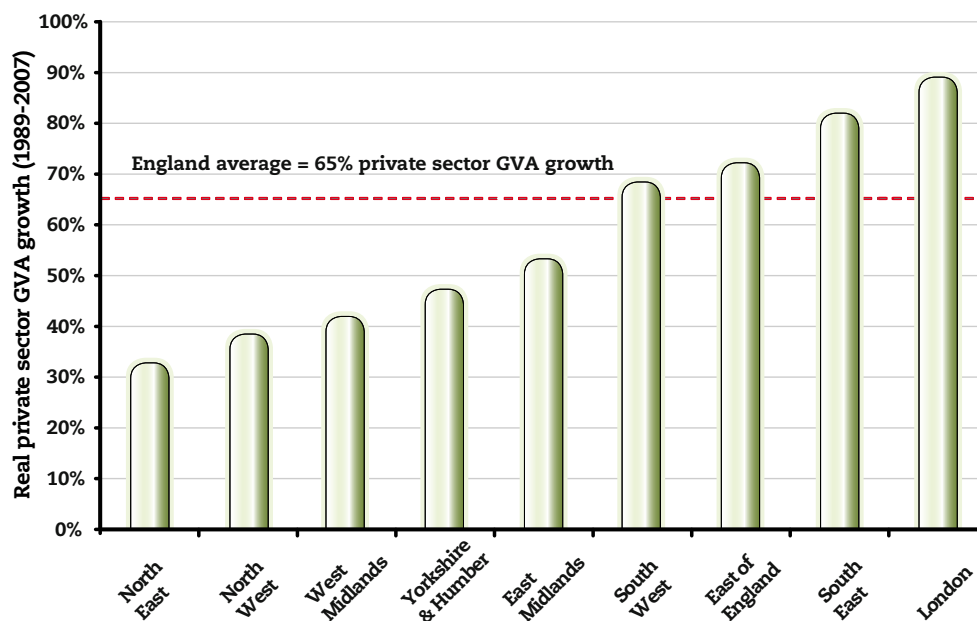
## England's economy needs to generate more private sector jobs, but some cities are much better at doing this than others

If growing the private sector and creating new private sector jobs is one of the key challenges for policy makers, their major problem is that private sector performance varies so greatly across England.<sup>8</sup> Even before the recession, during a period of robust economic growth, this meant that some areas of the country were suffering a net decline in private sector employment while others were seeing strong growth. Any efforts to expand the private sector and grow private sector jobs clearly need to be informed by an awareness of the existing pattern of private sector performance across the country. This section of the report provides a brief overview of the variations in private sector performance in England in recent decades.

### **The private sector economy has been growing more quickly in London and the South**

Starting off at the regional level, one of the best indicators of a region's economic dynamism is its private sector Gross Value Added (GVA). Figure 2 shows that this has varied widely between England's regions since 1989, with performance in London, the South East, the East and the South West outstripping that seen in England's other regions.

**Figure 2: Real private sector GVA growth by region (1989-2007)**



Source: ONS 2010, NUTS1 GVA (1989-2008) Data (1989 and 2007 data). CPI Inflation adjusted (2005 base year).

### **London and the South have been generating more private sector jobs as well**

The greater economic dynamism of London and the South over the past 20 years has meant that these regions have also been generating many more private sector jobs than the North and Midlands.

<sup>8</sup> This report focuses on England because many areas of policy are devolved to Scotland, Wales and Northern Ireland. However, many of the same points apply across the UK.

“Any efforts to grow private sector jobs need to be informed by an awareness of the existing pattern of private sector performance across the country”





As discussed below, there is significant variation within regions, but the aggregate picture tells an important story and the difference is stark.

- **For every extra private sector job generated in the North and Midlands between 1998 and 2008 ten were created in London and the South.<sup>9</sup>**
- As a result, the share of total private sector jobs found in London and the South East has been rising while the share found in the North and Midlands has been falling.
- But the North and Midlands still account for 44.5 percent of England's private sector jobs so there is still a huge amount of private sector activity in these areas.

**Figure 3: Private sector jobs growth in UK regions (1998-2008)**

Region	Change (1998-2008)	Percentage Change (1998-2008)	Share of total private sector jobs (1998)	Share of total private sector jobs (2008)	Share of England population (2008)
North East	24,100	3.6%	4.2%	4.1%	5.0%
North West	25,100	1.2%	13.0%	12.7%	13.4%
Y & H	50,700	3.3%	9.5%	9.4%	10.1%
East Midlands	41,100	3.1%	8.2%	8.1%	8.6%
West Midlands	-65,600	-3.7%	11.0%	10.1%	10.5%
East	79,400	4.7%	10.4%	10.5%	11.1%
London	288,500	9.6%	18.6%	19.3%	14.8%
South East	258,900	10.0%	16.2%	16.4%	16.3%
South West	145,400	10.2%	8.9%	9.3%	10.1%
<b>North &amp; Midlands</b>	<b>75,300</b>	<b>1.0%</b>	<b>45.9%</b>	<b>44.5%</b>	<b>47.6%</b>
<b>London &amp; South</b>	<b>772,200</b>	<b>8.9%</b>	<b>54.1%</b>	<b>55.5%</b>	<b>52.4%</b>

Source: NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology. NOMIS 2010, Mid-year population Estimates (2008 data).

**London's been the top performing city, but a number of smaller cities, such as Brighton and Preston, have also been doing well**

London has clearly been the top performer among cities. The capital generated more than 288,000 new private sector jobs (or 34 percent of the total created in England) between 1998 and 2008. And if we broaden out the definition of London to include the built up area that it covers as well as the 32 boroughs, the figure rises to 321,000 (or 38 percent of the national total).

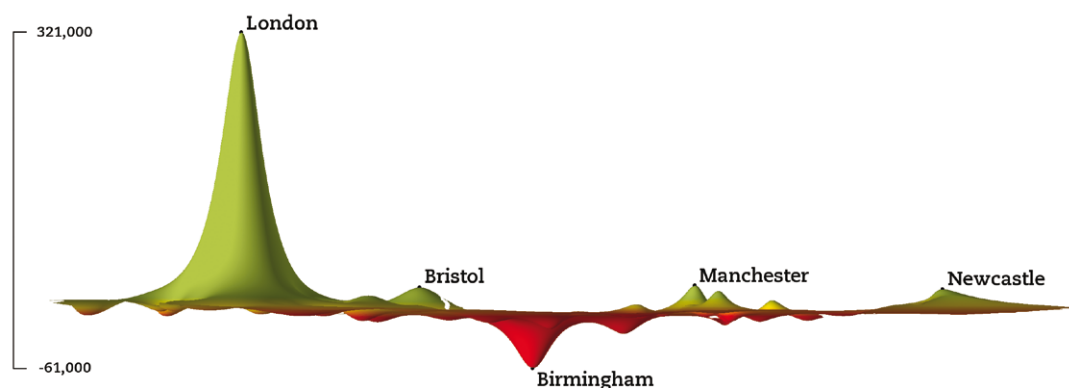
Unsurprisingly, a number of England's other top performers in terms of total number of private sector jobs generated are big cities as well, with Bristol, Manchester, Leeds and Newcastle occupying the rest of the top five. A more telling indicator of performance is the percentage increase in private sector jobs between 1998 and 2008. On this, Brighton and Milton Keynes have been performing outstandingly well, with the likes of Portsmouth and Preston not far behind (see Figure 5).

9. The 'south' includes the South East, East and South West



**Figure 4: Net private sector job creation in England's cities (1998-2008)**

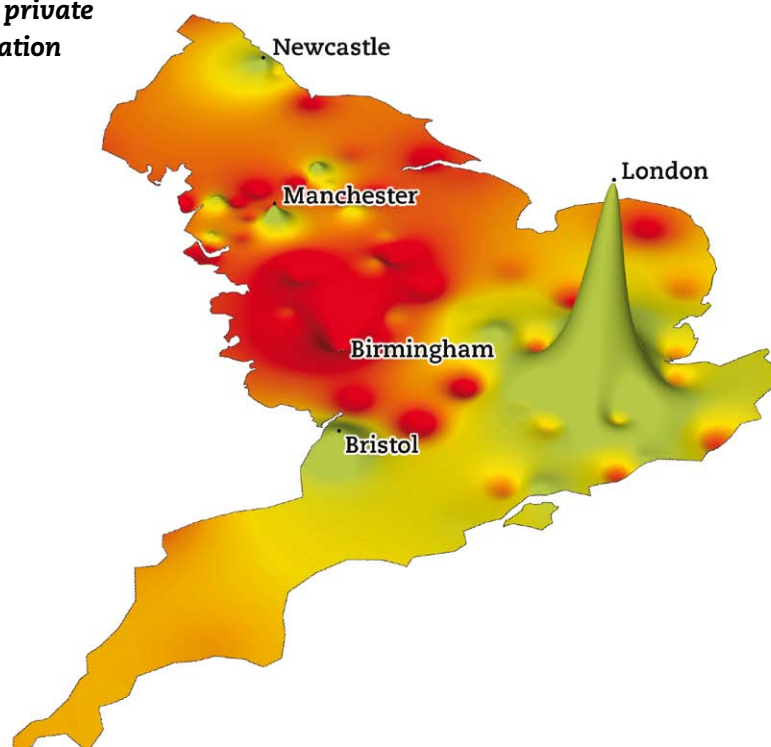
**a. England's private sector in profile**



**b. Top and bottom 10 cities on net private sector job creation**

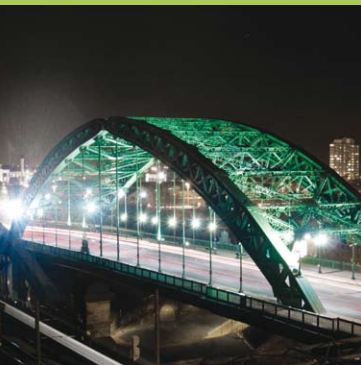
City	Net additional private sector jobs generated (1998-2008)	City	Net additional private sector jobs generated (1998-2008)
London	321,400	Birmingham	-61,400
Bristol	37,200	Stoke	-20,900
Manchester	33,700	Nottingham	-15,600
Leeds	25,400	Birkenhead	-11,100
Newcastle	24,200	Leicester	-8,500
Milton Keynes	22,400	Bradford	-7,700
Portsmouth	20,900	Burnley	-7,500
Brighton	20,100	Swindon	-6,900
Preston	17,100	Oxford	-6,000
Reading	16,900	Blackpool	-5,700

**c. Map of net private sector job creation**



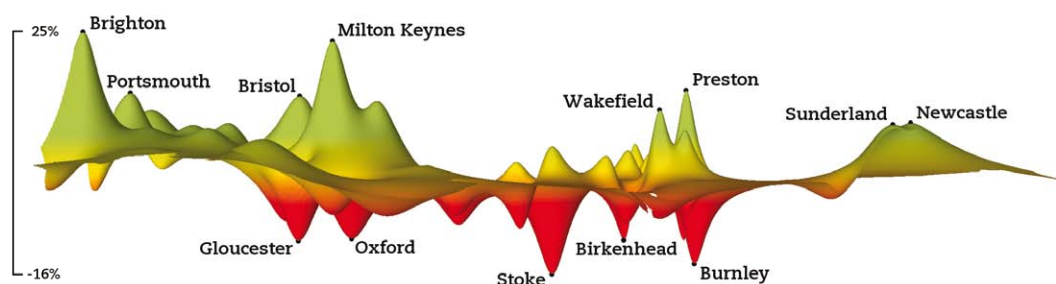
**Source:** NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology.

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**Figure 5: Percentage private sector jobs growth in England's cities (1998-2008)**

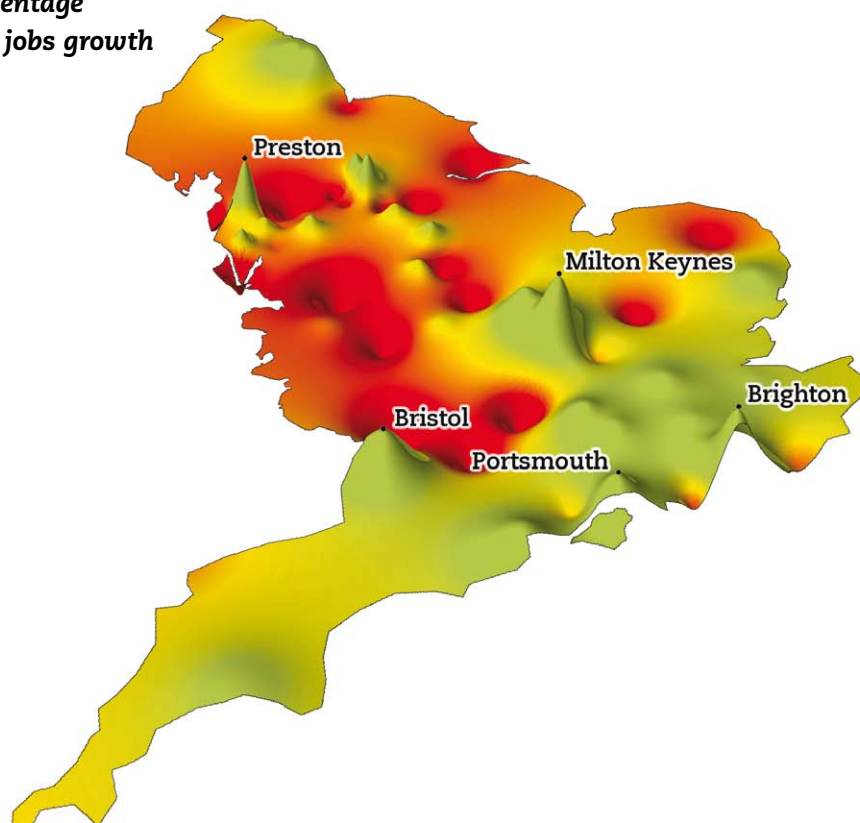
**a. Private sector jobs growth in England's cities in profile**



**b. Top and bottom 10 cities on percentage private sector jobs growth**

City	Private sector jobs growth (1998-2008)	City	Private sector jobs growth (1998-2008)
Brighton	24.8%	Stoke	-16.4%
Milton Keynes	23.7%	Burnley	-14.3%
Preston	16.2%	Birkenhead	-11.2%
Portsmouth	15.4%	Gloucester	-10.5%
Bristol	15.4%	Blackburn	-10.5%
Northampton	13.8%	Oxford	-9.8%
Bournemouth	12.7%	Birmingham	-7.7%
Wakefield	12.5%	Nottingham	-7.3%
Reading	10.3%	Swindon	-7.1%
Newcastle	10.2%	Blackpool	-6.3%

**c. Map of percentage private sector jobs growth**



**Source:** NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology.

“The worst performing cities on private sector job creation have been places like Stoke, Birmingham and Burnley”





**“It’s still worth supporting private sector activity in cities with shrinking private sectors”**

### ***Some of the weakest performers have been places like Birmingham and Stoke***

At the other end of the spectrum, the worst performing cities on private sector job creation have been places like Stoke, Birmingham and Burnley. Stoke in particular has seen its private sector jobs base shrink by over 16 percent over the past ten years, principally due to the continuing decline of manufacturing employment. As in many other cities, Stoke has been able to plug some of the gap left by the loss of private sector jobs because it has seen an expansion of public sector employment in recent years. The problem here, of course, is that the public sector can clearly no longer be relied upon as a source of growth.

More surprisingly, Oxford, which is normally viewed as one of England’s most prosperous cities, has also been among the worst performers on private sector jobs growth, losing 6,000 of them between 1998 and 2008. Perhaps even more surprisingly, this decline was largely due to a fall in financial and business services employment, which has been a key driver of growth in many other cities. Luckily for Oxford, however, it too has been able to fall back on the growth of what was an already very large public sector presence in the city.

### ***But there are still plenty of high performing cities outside the South***

What the statistics on private sector job creation also clearly show is that there are plenty of high performing cities outside London and the South. For example, Preston, Wakefield and Newcastle all made it into the top 10 in terms of their private sector growth rates between 1998 and 2008 (see Figure 5). Figure 6 gives more detail on the private sector growth story in Preston and Newcastle.

This strong performance in places outside London and the South is an important point to note in the context of England’s recurring debates about a North-South divide because it underlines the fact that straightforward North-South interpretations of England’s private sector growth story are too simplistic.

### ***It’s still worth supporting private sector activity in cities with shrinking private sectors***

One other important point to note is that even cities that have experienced a net decline in private sector jobs have a significant amount of sustainable private sector activity that is worth supporting. The most obvious example here is Birmingham; although it lost about 60,000 jobs from its private sector between 1998 and 2008, it still had an economy that provided employment for about 750,000 private sector workers even after this decline. Another is Nottingham, which lost about 15,600 private sector workers between 1998 and 2008, but still had just over 200,000 private sector jobs.

It would be foolish to suggest that these kinds of cities are no longer an important part of England’s economy simply because they have been experiencing a net decline of private sector jobs in recent years. That is clearly not the case, and each has experienced growth in its services sector while its manufacturing industry has been shedding workers. Similar stories can be told about many of England’s cities that have been losing jobs from their private sectors over the past decade, including places like Stoke, Burnley and Leicester. It is rarely a straightforward story of change in any city.

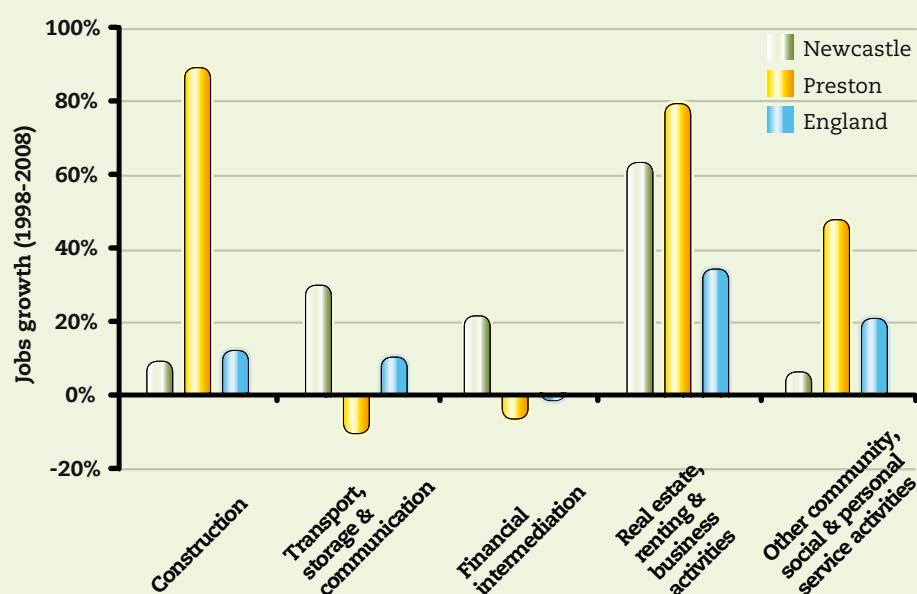


**Figure 6: Private sector growth in Preston and Newcastle**

Newcastle and Preston both experienced strong private sector jobs growth between 1998 and 2008. Like many cities, both had impressive growth in business services and far exceeded the national average growth in this category of employment. However, other sources of growth differed between the two cities, as the chart below shows.

Newcastle saw some of its strongest growth in transport, storage and communication and financial intermediation. Growth in these sectors far outstripped the English average, and contrasted with Preston's loss of these kinds of jobs. A key driver of Preston's growth has been construction, though it has also seen rapid expansion in community, social and personal services activities.

**Sectoral jobs growth in Newcastle and Preston (1998-2008)**



**Source:** NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology.

This raises an important policy point. It would be counterproductive to stop supporting private sector growth in cities that are struggling with persistent private sector job losses. This would ignore existing activity that might otherwise be sustained and it might also hamper the development of industries that are growing even while private sector employment in the city as a whole might be declining. At the same time, however, faced with significant declines in net private sector jobs, policy makers clearly need to be realistic about the overall growth potential of different cities.

The Centre for Cities is currently conducting research on the business growth policies that can be used to directly support private sector growth and will be publishing a report on this topic in September.

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## Variations in economic performance are inevitable and relative performance changes over time

Many will argue that, faced with these variations in private sector performance across the country, it should be the job of government to stimulate private sector growth in areas that are not currently performing as well as others. Indeed, in his recent speech on economic growth, the Prime Minister emphasised the need to ‘rebalance economic power across our regions’.<sup>10</sup>

But while this might be possible to some degree through the decentralisation of power and the introduction of various types of business growth policies – such as enterprise, inward investment or innovation policies, for example – expectations about the overall impact of these efforts should be kept firmly in check. The reality is that variations in private sector performance across space are an inevitable feature of our economic system. This means that some areas are simply much better placed to generate private sector jobs than others. And while relative performance changes gradually over time, government has much less control than it would like over where private sector jobs are likely to be generated.

### **Long term economic trends make differences in economic performance inevitable**

Indeed, a substantial body of academic work now shows that it is simply not within the power of government to stimulate the growth of private sector jobs wherever it would most like for them to be located.

One of the main reasons for this is that processes like globalisation and technological change have altered the relative value of the location based assets that are important in determining a city’s growth potential. For example, ports have become less important in determining growth over time (think of Liverpool, Glasgow and Sunderland) and proximity to motorway hubs (think of Milton Keynes or Wakefield) and top ranking universities (think of Oxford or Cambridge) have become more important.

Academics also now increasingly emphasise the role of agglomeration forces in explaining the high performance of some areas. Agglomerations are concentrations of people and businesses. When people and businesses locate together in a place it creates economic benefits – such as larger and more diverse labour markets – that increase with city size and create virtuous circles of growth for certain areas.<sup>11</sup> The self-reinforcing effects of private sector growth in these cities (or city-regions) make it difficult for others to match their performance. The economy of London and the Greater South East would be the key example in England, with most academics seeing this area as a densely networked and highly productive ‘mega city-region’.<sup>12</sup>

10. Speech delivered by David Cameron, 28 May 2010, Transforming the British economy: Coalition strategy for economic growth [www.number10.gov.uk/news/latest-news/2010/05/pm-delivers-speech-on-the-economy-51147](http://www.number10.gov.uk/news/latest-news/2010/05/pm-delivers-speech-on-the-economy-51147)

11. Martin P & Ottaviano G (1996) *Growth and Agglomeration* London: CEPR; Rosenthal S & Strange W (2001) ‘The determinants of agglomeration’, *Journal of Urban Economics* 50 (2); Baldwin R & Martin P (2004) ‘Agglomeration and Regional Growth’ in Henderson J & Thisse J (eds.) *Handbook of Regional and Urban Economics Volume 4: Cities and Geography*, Elsevier North-Holland; Rosenthal S & Strange W (2004) ‘Evidence on the nature and sources of agglomeration economies’, *Handbook of Regional and Urban Economics Volume 4*; Wood G and Parr J (2005) ‘Transaction costs, agglomeration economies and industrial location’, *Growth and Change* 36 (1)

12. Hall P & Pain K (2006) *The Polycentric Metropolis: Learning from Mega-city Regions in Europe* London: Earthscan

“Some areas are simply much better placed to generate private sector jobs than others”



Finally, though skills are important for growth<sup>13</sup> and are becoming more so over time<sup>14</sup>, skilled workers tend to sort themselves across an economy according to where the best job opportunities are being generated.<sup>15</sup> This is an important part of the explanation for why the share of degree educated workers is so much higher in areas that have strong economies. In London, for example, 38 percent of the workforce is educated to degree level compared to 29 percent nationally.<sup>16</sup> The overall effect of this sorting is to embed differences in skills levels across space and over time, and by extension to give some areas a persistent skills advantage over others that helps reinforce a city's growth potential.

### **The combined impact of these processes is shifting the pattern of private sector growth across the country**

The combined impact of these processes has been to gradually redraw the geography of private sector growth and potential in England's economy. It is no accident that some cities have performed so much better than others in generating private sector jobs over recent years. Rather, the variations that we observe are the product of major long term shifts in the geography of private sector growth potential in England's economy.

One way of understanding the overall shift is by analysing changes in what economists call 'market potential'. This captures an area's distance from major markets. An area with high market potential will either be a large market in its own right (e.g. London) or it might be located close by to large markets at home (for example, cities like Reading and Brighton that are located close to London) or abroad (e.g. London and many cities in the South East that have good access to the European market). Research shows that countries or regions with high levels of market potential experience stronger economic growth because, for example, their firms are subject to greater levels of competition and have access to a larger pool of customers and suppliers.<sup>17</sup>

The market potential of different areas has evolved over time in response to trends like globalisation and technological change and this has made some places much better positioned to act as centres for private sector growth in our economy. Over the last century, the most important determinant of changes in market potential has been the decline in transport costs. In particular, road transport has come to dominate the freight market at the expense of coastal shipping and rail and this has had major implications for the location of private sector growth as cities that previously benefited from access to ports and rail hubs have seen their relative advantage whittled away.<sup>18</sup>

A 2005 paper analysed the market potential of UK regions as they related to London and the South East in 1911 and 1985.<sup>19</sup> Figure 7 summarises the findings of this work for Scotland, Wales and the North. The closer the market potential

13. Glaeser E & Saiz A (2003) *The rise of the skilled city* Harvard: Harvard Institute of Economic Research

14. Reich R (1991) *The Work of Nations*, New York: Vintage Books; Drucker P (1993) *Post-Capitalist Society* New York: HarperCollins

15. Dixon S (2003) *Migration within Britain for job reasons* Newport: ONS

16. Centre for Cities (2010) *Cities Outlook 2010* London: Centre for Cities

17. Boulhol H, Serres A & Molnar M (2008) *The Contribution of Economic Geography to GDP per Capita* Paris: OECD

18. Midelfart-Knarvik K, Overman H, Redding S & Venables A (2000) *The Location of European Industry* [http://econ.lse.ac.uk/~sredding/papers/dgII\\_loc.pdf](http://econ.lse.ac.uk/~sredding/papers/dgII_loc.pdf)

19. Crafts N (2005) *Market Potential in British Regions, 1871-1931*, *Regional Studies* 39 (9)

**“The variations that we observe are the product of major long term shifts in the geography of private sector growth potential in England's economy”**





figure for each of these areas is to 100 percent the greater the market potential of that area relative to London and the South East. The results show clearly that there has been a major decline in the market potential of Wales, Scotland and the North compared to London and the South East over this period.

**Figure 7: Market potential relative to London and South East in 1911 and 1985**

	1911 'distances'	1985 'distances'
North	77.2%	47.5%
Scotland	70.5%	37.5%
Wales	83.0%	53.6%

**Source:** Crafts (2005) *Market Potential in British Regions, 1871-1931*, *Regional Studies* 39 (9)

Relative transport costs within the UK are unlikely to have changed substantially from their 1985 level, but the completion of the European single market may have continued to strengthen the market potential of London and the South East. Even though the rate of change may have levelled off, the impact of these trends will still be playing out, helping explain why private sector performance has been so much stronger in London and the South than other parts of the country.

## The changing pattern of private sector growth is creating problems for policy makers

The changing pattern of private sector growth across England presents the new government with two major long-term problems:

- The first is that some of England's struggling cities, such as Stoke and Blackburn, are no longer generating enough private sector jobs for the number of people living in them and, through no fault of their own, are unlikely to be capable of filling the gap.<sup>20</sup>
- The second is that some buoyant cities, such as Brighton and Reading, that are experiencing high levels of private sector growth or rising populations are struggling to deal with the pressures that this is creating for them, including traffic congestion and housing shortages.

### England's 'labour market mismatch'

One of the effects of England's shifting pattern of private sector growth has been the development of a labour market mismatch, whereby some areas are not generating enough private sector jobs for the number of people living in them and others are creating so many that they have a shortage of workers.

One of the indicators that shows this labour market mismatch most clearly is claimants per vacancy, which is the number of people claiming Job Seekers Allowance in an area divided by the number of vacancies advertised by their local Job Centre Plus. Analysing this data gives a clearer picture of which cities are struggling to generate enough jobs for their workers and which are not (Figure 8).

20. See our typology of cities on pages 23-28 for further analysis of which cities are buoyant, stable or struggling.

**“There has been a major decline in the market potential of Wales, Scotland and the North compared to London and the South East”**



In the two years up to the recession, the cities with the lowest average number of claimants per vacancy were places like Bournemouth, Warrington, Crawley and York. Those with the highest included Birkenhead, Hastings, Hull and Liverpool. On this evidence it seems clear that some areas are suffering from a ‘jobs gap’ or ‘jobs deficit’ problem whereas jobs are significantly more plentiful in other areas.

**Figure 8: Average claimants per vacancy in top and bottom 10 cities (May 2006-May 2008)**

Cities with lowest average claimants per vacancy		Cities with highest average claimants per vacancy	
Crawley	0.80	Hastings	5.44
Warrington	0.88	Hull	5.20
Bournemouth	0.92	Chatham	4.58
Aldershot	0.99	London	4.58
York	1.11	Birkenhead	4.48
Preston	1.22	Liverpool	4.34
Cambridge	1.27	Grimsby	4.30
Bristol	1.29	Middlesbrough	4.10
Gloucester	1.45	Birmingham	4.09
Swindon	1.45	Luton	3.48

**Source:** NOMIS 2010, Claimant Count (May 2006-May 2008 data). NOMIS 2010 Jobcentre Plus Vacancies (May 2006-May 2008 data).

#### **Four interpretations of the ‘jobs deficit’ problem in underperforming cities**

So what can policy makers do to deal with England’s labour market mismatch? There are four possible interpretations of the problem:

##### **1. There is no jobs gap. There are plenty of jobs available and active labour market policies are all that’s needed to help people access them**

Though it seems implausible given the current state of the economy, prior to the recession Labour ministers were arguing that enough jobs were available for anyone who wanted one.<sup>21</sup> Their view was that people should be helped to access the jobs that were already there for the taking by using active labour market policies, such as the New Deal for Young People.<sup>22</sup> Judging by the coalition agreement and Ian Duncan Smith’s recent announcements on welfare-to-work<sup>23</sup>, the new Government intends to follow a broadly similar approach, with their proposed ‘Work Programme’ providing tailored support to get people off benefits and into work.

New Deal style policies clearly have a role to play in helping people find work and discouraging welfare dependency. For example, evaluations of the New Deal for Young People show that it has a valuable impact on the employment prospects of its target group, with participants in the programme improving their employment chances and spending fewer days on benefit.<sup>24</sup>

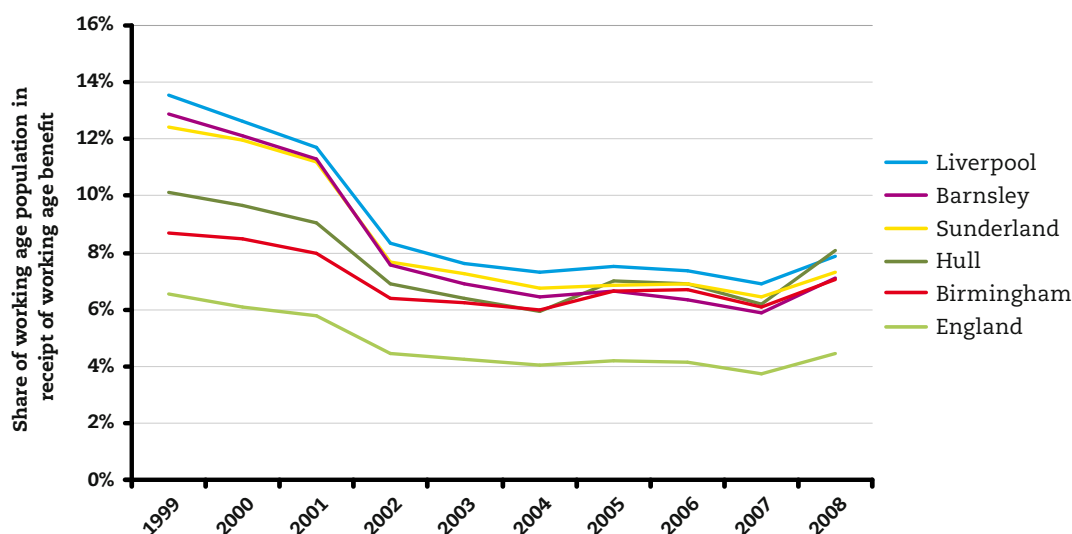
21. The Observer ‘Minister warns ‘can work, won’t work’ Britons over benefits’, The Observer, Sunday 17 December 2006  
 22. For a review of the Labour government’s rhetoric on employment and the New Deal see Theodore N (2007) ‘New Labour at work: long term unemployment and the geography of opportunity’ Cambridge Journal of Economics 37  
 23. Speech delivered by Ian Duncan Smith, 27 May 2010, Welfare for the 21st Century, [www.dwp.gov.uk/newsroom/ministers-speeches/2010/27-05-10.shtml](http://www.dwp.gov.uk/newsroom/ministers-speeches/2010/27-05-10.shtml)  
 24. Giorgi G (2005) Long Term Effects of a Mandatory Multistage Program: The New Deal for Young People in the UK London: Institute for Fiscal Studies; Beale I, Bloss C & Thomas A (2008) The longer-term impact of the New Deal for Young People London: DWP

“It seems clear that some areas are suffering from a ‘jobs gap’ or ‘jobs deficit’ problem whereas jobs are significantly more plentiful in other areas”



It also seems clear, however, that on their own New Deal policies have failed to eliminate worklessness in underperforming areas. The New Deal for Young People was in place between 1998 and 2009 and other New Deal policies, such as the New Deal for the Long Term Unemployed, were introduced during this period as well.<sup>25</sup> But while some good progress was made on reducing worklessness in struggling cities, it remained unacceptably high for many of them throughout the 2000s. Figure 9 shows the evolution of worklessness<sup>26</sup> between 1999 and 2009 for the five English cities with the highest rates of worklessness in 2009. This shows that worklessness has come down significantly in most of these cities, but that it remains well above the national average in all of them.

**Figure 9: Worklessness in England and five cities with highest rates in 2008 (1998-2008)**



Source: NOMIS 2010, DWP Benefits (1999-2008 data).

One of the main reasons New Deal policies have not been able to eliminate worklessness is that many of England's underperforming areas were not generating enough jobs for their workforces even when economic growth was strong, public spending was high and public sector jobs were plentiful. As numerous authors have argued, long term unemployment is closely correlated with the total number of jobs in an area, and has been throughout the post World War II era.<sup>27</sup>

## 2. Demand side policies are needed to help generate more jobs in underperforming areas

Many have critiqued the previous government's supply side approach to unemployment, arguing that there needs to be a stronger emphasis on stimulating demand for workers in underperforming areas.<sup>28</sup> But while there is some scope for government to have an impact on the demand for workers in an area, there are two important reasons why expectations about the overall impact of job creation programmes should be kept in check.

25. All have now been replaced by the Flexible New Deal, which was introduced in October 2009

26. Measured by the share of the working age population receiving either job seekers allowance or incapacity benefit.

27. Webster D (2005) Long term unemployment, the invention of 'hysteresis' and the misdiagnosis of structural unemployment in the UK', Oxford Review of Economic Policy 16: 983-984

28. Turok I & Edge N (1999) The jobs gap in Britain's cities – findings London: Joseph Rowntree Foundation; Webster D (2005) Long term unemployment, the invention of 'hysteresis' and the misdiagnosis of structural unemployment in the UK', Oxford Review of Economic Policy 16: 983-984; Theodore N (2007) 'New Labour at work: long term unemployment and the geography of opportunity' Cambridge Journal of Economics 37



First, the scale of the challenge is enormous. Employment data for 2008 shows that approximately **620,000 extra jobs** would be needed across England's cities to bring the performance of lagging cities up to the national average. Figure 10 lists England's bottom ten cities in terms of their employment rates and shows how many jobs would be needed in each city to bring them up to the English average employment rate of 74.2 percent in 2008.<sup>29</sup>

**Figure 10: Employment rates and jobs gaps in cities with lowest employment rates in England (2008)**

City	Employment rate (2008)	Jobs needed to bring city to English average employment rate of 74.2 percent (2008)
Hull	62.3%	19,800
Liverpool	62.8%	54,900
Birmingham	65.3%	124,100
Blackburn	65.7%	7,300
Cambridge <sup>30</sup>	66.9%	6,100
Middlesbrough	67.2%	20,200
Luton	67.8%	7,600
Burnley	67.8%	7,000
Coventry	68.1%	11,900
Barnsley	68.2%	8,300

**Source:** NOMIS 2010, Annual Population Survey (2008 data).

Second, the government's influence over private sector job creation is nowhere near strong enough for it to be able to plug the gap. Though Labour was criticised for ignoring the demand side, it was actually highly active in this area. The creation of Regional Development Agencies (RDAs) in 1999 meant that Labour was responsible for the introduction of an extensive set of interventions and investments aimed at stimulating private sector jobs growth across England.

Supporters of RDAs will argue that a 2009 evaluation<sup>31</sup> found that they generated £4.50 of economic benefit for every £1 they spent between 2002/03 and 2006/07. They will also point out that they were involved in the creation of 8,500 businesses, helped 30,000 people into employment and were responsible for creating about 200,000 new jobs.

RDAs have undoubtedly achieved some successes, but there are good reasons to question this evaluation evidence. As LSE academics have recently pointed out, 'the evaluation almost certainly attributes things to RDA activities when they would have happened regardless' and 'the approach adopted (asking project managers or recipients) was close to the bottom of the ranking in terms of rigour'.<sup>32</sup>

29. The method for this calculation is based on work on the work of Erdem E & Glyn A (2001) 'Job deficits in UK regions' Oxford Bulletin of Economics and Statistics 63 (special issue)

30. The reason Cambridge has such a low employment rate is because it has a relatively high share of students in its working age population.

31. PwC (2009) Impact of RDA spending, National Report, Volume 1 London: BERR

32. Centre for Economic Performance (2010) Election Analysis – Urban Renewal and Regional Growth: Muddled Objectives and Mixed Progress London: LSE

**“620,000 extra jobs would be needed across England's cities to bring the performance of lagging cities up to the national average”**

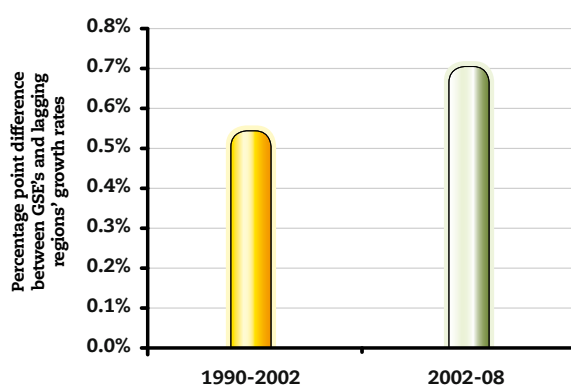




More importantly, even if these figures are to be believed, the impact of RDA and other government programmes on economic growth and private sector job creation has been nowhere near large enough to plug the jobs gaps that exist in many lagging areas. As described above, these still totalled 620,000 jobs in 2008 after ten years of intensive government effort.

The inadequacy of this approach is also evident in Labour's failure to deliver on its Public Service Agreement (PSA) around Regional Economic Performance (REP). The aim of the REP PSA was to reduce the gap in regional growth rates between the leading and lagging English regions. As Figure 11 shows, this has clearly not been achieved.

**Figure 11: Difference between GVA per head growth rates of the Greater South East and lagging regions (1990-2008)**



Source: ONS 2010, NUTS1 GVA (1989-2008) Data (1990, 2002 and 2008 data).

### 3. People should link to jobs in their wider labour market

A more recent take on the jobs gap debate has been that workers should be encouraged to lift their travel horizons and look for employment in their wider area or in neighbouring areas within commutable distance. As Labour's last budget stated, efforts to address worklessness should focus on 'connecting people to economic opportunities' as well as supporting them to find work in their own areas.<sup>33</sup>

This is an argument with some merit, though such a strategy would not be capable of solving cities' jobs deficit problems on its own. As explained in a recent report by Anne Green at the University of Warwick, 'the relative costs of commuting (when expressed as a percentage of earnings) are higher for less skilled and part-time workers, leading to less geographically extensive job searches and shorter travel-to-work distances than for more highly paid workers'.<sup>34</sup> As Green suggests, there is need to make it easier for people to access employment across a wider area by improving public transport links and reducing cost barriers that can restrict travel horizons.

An extension of this argument is to suggest that inter-city linkages should also be improved so that people can widen their job search even further. This makes sense too because it increases the number of job opportunities available to workers and can connect people in struggling economies with opportunities in cities that are generating more jobs.

33. HM Treasury (2010) *Budget 2010: Securing the recovery* London: HM Treasury

34. Green A (2009) *Geography matters: The importance of sub-national perspectives on employment and skills* Wath-Upn-Deane: UK Commission for Employment and Skills p.14-15

"The scale of the RDAs' impact on economic growth and private sector job creation is nowhere near large enough to plug the jobs gaps that exist in many lagging areas"



It should be noted, however, that the ‘linking people to jobs’ approach, whether it is within or between areas, is only likely to ease, rather than solve the jobs gap problem that afflicts many of our cities. There are simply not enough jobs being generated even in cities that have been experiencing relatively impressive jobs growth, for example Manchester and Newcastle, for all those that are unemployed in surrounding areas to be able to find work in these relatively higher growth areas.

Places like Manchester and Newcastle have their own jobs deficit problems (in 2008 Manchester’s was 57,000 and Newcastle’s was 21,000). It would be unrealistic to expect them to pick up their jobs growth enough to solve their own jobs deficit as well as those of other surrounding areas like Blackburn’s (which was about 7,000) and Sunderland’s (which was 6,000).

Added to this, struggling cities that are also geographically isolated face the issue of having very small labour markets in the surrounding area that they can link up to for jobs. For example, Hull and Hastings have the highest numbers of claimants per vacancy of any cities in the country, but both are relatively isolated from other large urban centres so the potential to link people to jobs being generated in neighbouring areas seems limited.

#### 4. People should move to areas where private sector jobs are being created

The most controversial answer to the jobs gap problem in struggling cities is that some of the people living in them should move to areas where jobs are more plentiful. When this argument has been made in the past<sup>35</sup> it has attracted a huge amount of criticism from politicians and the media.<sup>36</sup> One of the reasons people were so enraged by it was that it was viewed as a call for policy makers to give up on struggling cities and for everyone to move away to other more prosperous areas.

In fact, population rebalancing is a normal part of the adjustment process. In England, the populations of cities and towns in the industrial North and Midlands increased significantly during the industrial revolution as places like Liverpool, Birmingham and Manchester boomed and people moved there to find work.

The economic fortunes of many of these kinds of cities began to decline in the interwar years and the smaller cities and towns in the South of England began to generate more jobs and attract more workers. This has led to a gradual rebalancing of England’s population over time as people have again responded to the changing geography of opportunity by moving to where the jobs are being created (see Figure 12).

Though change creates problems of economic dislocation for some communities and pressures of growth for others, allowing cities to adjust to their optimum size is an important way of maximising economic growth, enhancing people’s opportunities and increasing total employment.<sup>37</sup> Given the scale of the jobs gap in many struggling cities some further population rebalancing or labour market adjustment may well make sense from an economic point of view.

35. Leunig T & Swaffield J (2008) *Cities Unlimited* London: Policy Exchange

36. ‘City report ‘insane’ says Cameron’, BBC News website, 13 August 2008

37. Overman H & Rice P (2008) *Resurgent Cities and Regional Economic Performance* London: LSE

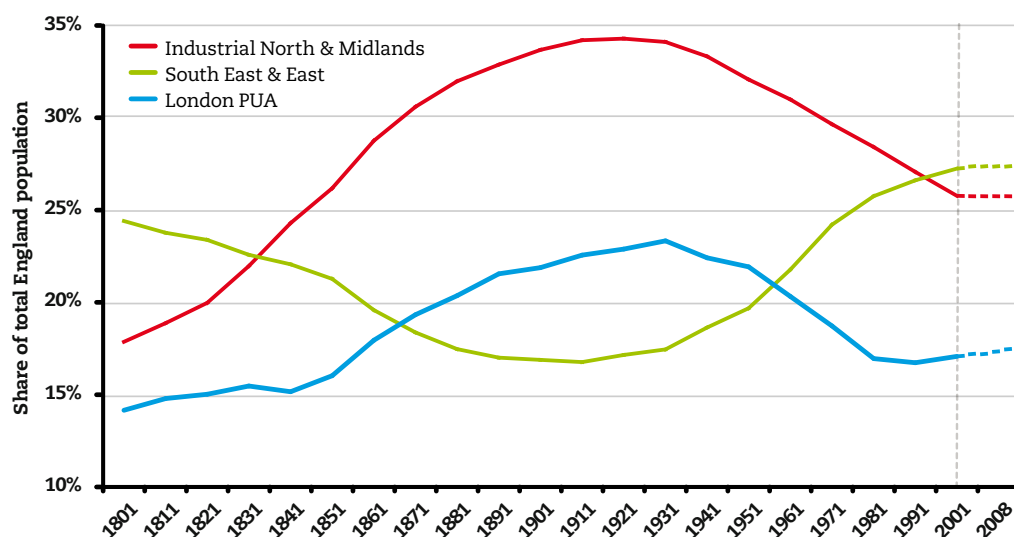
“The ‘linking people to jobs’ approach is only likely to ease, rather than solve the jobs gap problem”



This certainly does not mean that areas currently struggling with an undersupply of jobs should be completely abandoned by their inhabitants. Nor would it be acceptable for government to abandon cities that are experiencing relative economic or population decline. On the contrary, these places should be the focus of intensive government efforts, particularly on skills.

But the objectives of government interventions need to be changed so that they are more realistic about the growth potential of different areas. For example, on the built environment the focus should be on managing transition rather than continually trying to spark unrealistically high levels of growth. The physical fabric of a city is important because it remains – and decays – when people or businesses leave. Failure to deal with it leads to problems of abandonment that can reduce the quality of life in areas going through a period of transition.

**Figure 12: Population share of Industrial North and Midlands, London and the South (1801-2008)**



**Source:** Data courtesy of Dr Humphrey Southall and the Great Britain Historical GIS Project at the University of Portsmouth. Data for 2008 is an estimate from NOMIS 2010, Mid-year population estimates 2008 data<sup>38</sup>

Efforts to deal with the negative consequences of this adjustment should not focus on subsidising new commercial premises or housing stock where there is already an excess supply. Rather they should concentrate on alternative solutions that promote quality of life such as the creation of new community parks and public realm improvements. The Centre for Cities is currently carrying out research on regeneration policy in struggling cities and a report will be published in November 2010.

### **Dealing with the pressures on buoyant cities**

The other side of England's labour market mismatch are the areas of the country that have too few workers for the number of jobs they are generating. Places like Cambridge, Milton Keynes and Brighton need to be encouraged to expand significantly to help people from elsewhere in the country access the opportunities that are being generated in these areas. One of the big problems in England, however, is that our policy choices since World War II have ended up

38. Humphrey Southall ([www.port.ac.uk/departments/academic/geography/staff/title,1783,en.html](http://www.port.ac.uk/departments/academic/geography/staff/title,1783,en.html)) has been leading a project called 'A Vision of Britain Through Time' that provides time series census data for local authorities and other areas. For more information either contact Humphrey Southall direct or go to the project website ([www.visionofbritain.org.uk/index.jsp](http://www.visionofbritain.org.uk/index.jsp))

**“The objectives of government interventions should be changed so that the focus is on managing transition rather than continually trying to spark unrealistically high levels of growth”**

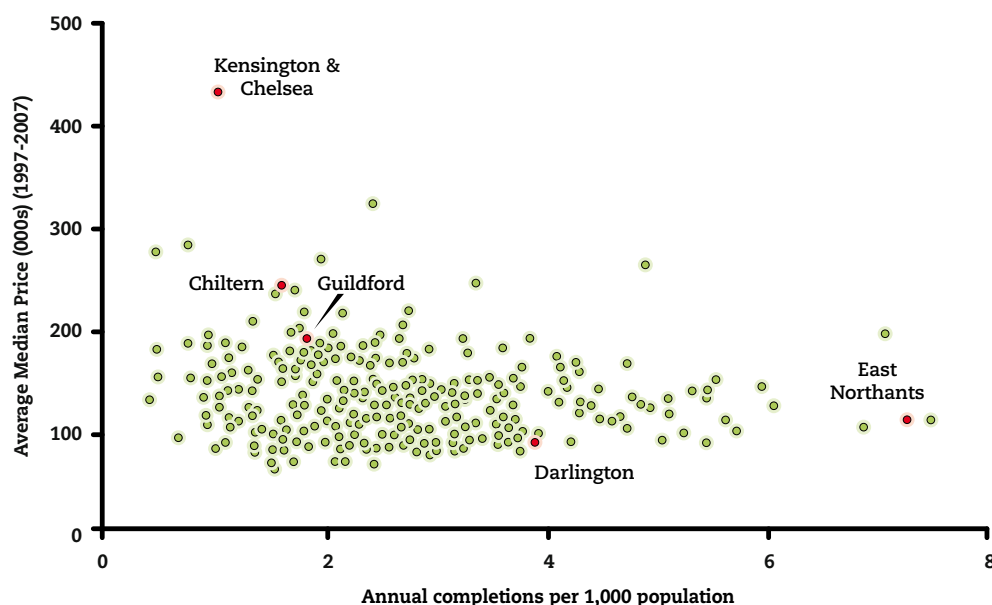


“Places like Cambridge and Brighton need to be encouraged to expand significantly to help people from elsewhere in the country access the opportunities that are being generated in these areas”

restricting the expansion of buoyant cities. Most importantly, as the Centre for Cities argued in a recent report, England’s planning system has restricted the supply of land and prevented enough houses from being built in areas of high demand where jobs are being generated.<sup>39</sup>

One of the best ways of illustrating this point is to show the relationship between house prices and house building in England. If house prices in an area are high that is a clear market signal that the supply of housing is not matching people’s demand for it. So, if house building in a country is responsive to people’s demands about where they want to live, we should expect to see a positive relationship between house prices and house building. The market should respond to people’s demands by building more houses. As Figure 13 shows, however, there does not appear to be any relationship whatsoever between these two variables. This is a clear indication that England’s house building is not responding to our population’s demands about where they want to live.

**Figure 13: Relationship between house prices and new house building in England (1997-2007)**



Source: CLG

Note: Excludes local authorities that merged into new unitary authorities during this period

The effect of this failure to build houses in areas of high demand has been that the cities and towns we would expect to have grown significantly since World War II have not done so. There are some exceptions to this, such as Milton Keynes and Northampton, which have both grown rapidly since they were designated as new towns in 1960s.

However, the overall picture is one of relatively limited population growth in economically buoyant areas. As a recent academic paper explained, given the changes that have been taking place in our economy, ‘we might expect Oxford and Cambridge to be the Burnley and Blackburn of the post war era. Instead, their post war populations grew at only 0.5 percent per year from 105,898 to 134,248 and from 80,311 to 108,863 respectively’.<sup>40</sup> Restricting the physical expansion of buoyant cities restricts economic growth and job creation. It also limits people’s mobility, making it more difficult for them to access jobs in high growth areas because housing costs are too high.

39. Aldred T (2010) *Arrested Development: Are we building houses in the right places?* London: Centre for Cities

40. Leunig T & Overman H (2008) ‘Spatial patterns of development and the British housing market’ *Oxford Review of Economic Policy* 24 (1)





## Why we need to focus more on people than on places

One of the other big concerns people have about accepting that differences in economic performance across space are inevitable is that they fear this will lead to an increase in economic inequality.

Concern about inequality is perfectly legitimate, particularly given that it is such a major problem in the UK.<sup>41</sup> The problem, however, is that the policy thinking on this issue has become weighed down by some confusion about the difference between inequality between people and inequality between places. It is right for policy makers to try and bring down levels of inequality between people, but targeting places rather than the people themselves is unlikely to be the best way of doing this.

### **We need to think about outcomes for people more than places**

As the respected US economist, Ed Glaeser, has argued, ‘the starting point for any serious urban policy is to recognise that the government’s objective should be to enrich and empower the lives of people, no matter where they live’.<sup>42</sup> The message here is that the right objective for anti-poverty policies should be to improve the economic prospects for people, not to restore the relative performance of a particular place to some arbitrary point in the past.

This runs counter to current thinking among many policy makers around the country, who view helping people into work and boosting levels of economic activity in underperforming areas as the sole means of alleviating poverty among the people in these areas. While these approaches are certainly part of the answer, they can never provide a complete solution. Labour migration has a role to play as well.

Political leaders should not see it as a disaster if the population of a city declines as it becomes less capable of generating jobs for its workforce or if it begins to act as a commuter town for a larger city located nearby. Commuting and the migration of workers to other parts of the country where jobs are more plentiful and better paid should both be seen as positive developments because they improve the outcomes achieved by the individuals involved. Also, international evidence from places like China, India and Mexico shows that internal migration of this kind can actually reduce levels of economic inequality between people.<sup>43</sup>

### **High skilled workers are more likely to move**

If it is made easier for people to move to areas of the country where employment opportunities are better and wages are higher what sort of people are most likely to move? Research on inter-regional migration within the UK shows that the more highly skilled an individual is, the more likely they are to move to access work.<sup>44</sup> For example, it is well known that graduates are more mobile than those with lower skills.<sup>45</sup> So if internal migration were to increase it is fair to assume that a disproportionate share of those moving would be high skilled workers.

41. Hills J et al (2010) *An Anatomy of Economic Inequality in the UK: Report of the National Equality Panel* London: National Equality Panel

42. Glaeser E ‘The mill towns round our neck’, *Prospect*, 28th September 2008

43. World Bank (2008) *World Development Report 2009: Reshaping Economic Geography* New York: World Bank

44. Champion T et al (1998) *The determinants of migration flows in England: a review of existing data and evidence* Newcastle upon Tyne: University of Newcastle; Dixon S (2003) *Migration within Britain for job reasons* Newport: ONS

45. Webber C & Larkin K (2009) *Growing by degrees? High skilled workers in Liverpool* London: Centre for Cities

“The right objective for anti-poverty policies should be to improve the economic prospects for people”



“Commuting and the migration of workers to other parts of the country where jobs are more plentiful and better paid should both be seen as positive developments”

Increasing the flow of high skilled workers out of a city could potentially undermine that place’s growth prospects. However, that is not a sufficient reason to restrict people’s choices about where they can live and thereby limit their economic opportunities as well. Instead, the approach should be to respond to market signals about where people want to live, for example by building more houses in areas of high demand, and then let them decide for themselves what they think is in their best interests.

### **Low skilled workers face significant barriers and these need to be reduced by policy makers**

While high skilled workers tend to be more mobile, lower skilled workers face a range of barriers to their movement. One of the factors preventing greater mobility among less skilled and lower income workers is that these people are more likely to live in social housing. The problem here is that people living in the social housing sector are less likely to move across long distances than those living in the private housing sector.<sup>46</sup> The new Government is aware of this issue, with the Conservatives arguing in their manifesto for a pilot of ‘a new ‘right to move’ scheme and [the introduction of] a nationwide social home swap programme, so social tenants can transfer their tenancy to another home or part of the country’.<sup>47</sup>

The coalition agreement does not mention this proposal at all, so there is clearly a lot of thinking for the new Government to do in this area. Finding ways of enabling greater mobility within the social rented sector and ensuring that there is an adequate supply of social rented housing in areas of high demand should be two of their key priorities.

### **Focus on skills, but accept that people will move if they see greater opportunity elsewhere**

One of the key determinants of individual opportunity is education and skills. Many of England’s struggling cities have a higher than average share of workers with no formal qualifications and a lower than average share of degree educated workers. Skills weaknesses not only hold back economic growth in an area, but more importantly they also restrict people’s opportunities by, for example, limiting the range of jobs that they can do and constraining their earning capacity.

The new Government is right to maintain the focus on education and skills as an issue of paramount importance. The concentrations of unskilled or low skilled individuals in struggling cities provide a good signal about where to focus special attention to improve skill levels in our economy. Improving skills levels of residents will very likely have a positive impact on the economic performance of struggling cities, leading to more jobs and higher incomes, and that is obviously to be welcomed.

However, the aim should not necessarily be to improve attainment and then retain workers in an area. Rather, educational attainment and skills should be a primary focus, but policy makers should recognise that once individuals have improved their skills levels they may move to other areas of the country that are able to provide better economic opportunities for people. In line with the stronger focus on individuals suggested above, this should not be seen as any kind of failure. If attainment is improved and this enables some people to move so that they can pursue opportunities elsewhere this should be seen as a good outcome not a bad one.

46. Hughes G & McCormick B (1981) Do council housing policies reduce migration between regions? *Economic Journal* 91; Buck N (1994) *Housing and residential mobility*. In N Buck J, Gershuny D & J Scott (1994) *Changing Households: the British Household Panel Survey 1990-1992* Colchester: ESRC Research Centre on Micro-Social Change; Hills J (2007) *Ends and means: The future roles of social housing in England* London: ESRC

47. Conservative Party (2010) *Invitation to join the government of Britain: the Conservative manifesto 2010*



## A new typology of cities

It should be clear from this analysis that a new approach is needed to economic development across England. Policy needs to acknowledge the shifting geography of private sector growth rather than trying to hold back the natural tide of economic change.

But how can we classify the performance and trajectories of different cities? This section of the report develops a new typology of cities that captures their trajectories and can be used to help shape the approach that policy makers take to different places in England. We identify three different types of city economies: buoyant, stable and struggling.

### **Six key indicators for tracking the performance and trajectory of UK cities**

We have selected six indicators to track the performance and trajectory of UK cities over time.

- **Annual average growth of real Gross Value Added (GVA) (1998-2007)**  
This measure gives an approximation of the economic output from a city economy. Looking at the growth in real GVA gives an indication of how quickly a city economy is growing over time. We would expect buoyant economies to have high real GVA growth.
- **Private sector job creation (1998-2008)**  
Many cities have benefited from jobs growth over the past ten years, but the public sector has accounted for a lot of the jobs growth in many cities. Experiencing strong private sector jobs growth is a good indication of the dynamism of a city's underlying economy.
- **Annual average population growth (1998-2008)**  
Cities that are able to offer good economic opportunities to people will be attractive to national as well as international migrants. On the whole, buoyant cities should experience population growth while struggling cities are likely to experience population decline or stagnation.
- **Average house prices (2008)**  
Demand for land in areas of high economic activity is greater than demand for land in areas of lower economic activity. So cities that are performing well are likely to have higher land prices than those that are not. We use house prices here as a proxy for land prices.
- **Average Jobseekers' Allowance and Incapacity Benefit claimant count (1999-2008)**  
High levels of worklessness in part signal an imbalance between the supply of and demand for labour. Cities with persistently high claimant count rates are not creating enough jobs for their workers, which can have the knock on effect of causing people to exit the labour market and claim incapacity benefit.
- **Average wages (2008)**  
Higher wages reflect higher demand for workers so strongly performing economies are expected to pay higher wages.

“Skills weaknesses not only hold back economic growth in an area, they also restrict people’s opportunities”



“Cities with persistently high claimant count rates are not creating enough jobs for their workers”

## The new typology: buoyant, stable or struggling?

Using this data and analysing it across England’s 56 cities, we have developed a simple typology of three different city types – struggling, stable and buoyant.<sup>48</sup>

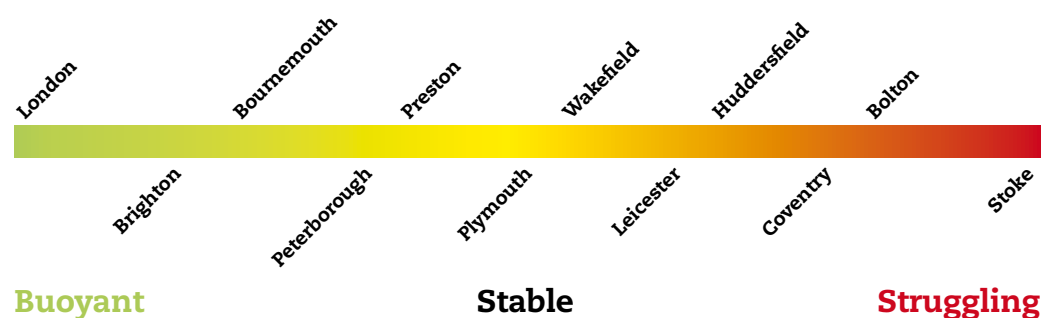
- **Buoyant cities:** these are cities that perform strongly on most of the above indicators. They tend to be experiencing above average population growth and have dynamic private sector economies. These are likely to be the cities most in need of major expansion to enable further growth. Our typology identifies places like Milton Keynes, Brighton and Reading as buoyant cities.
- **Stable cities:** this is the largest group in our typology. But rather than all cities in this group experiencing similar performance levels and trajectories, the stories for cities in this category vary quite widely, with some such as Coventry close to being classified as struggling and others such as Portsmouth close to being classified as buoyant.
- **Struggling cities:** these cities tend to be characterised by population stagnation, low or negative private sector jobs growth and residential property prices well below the national average. These are the cities likely to be most in need of some further population rebalancing. Our typology identifies places like Stoke, Hull and Middlesbrough as struggling cities.

London and England’s Core Cities are included within this typology, but are denoted in blue in the figures below.

## Where do England’s cities fit into this typology?

Overall, England’s cities sit on a spectrum from the most buoyant city, London, to the one that we have classified as most struggling city, Stoke (see Figure 15). Although for the purposes of analysis here we have applied cut offs between buoyant, stable and struggling cities, the performance of England’s cities is actually quite graduated, with some cities close to being classified as buoyant and others close to being struggling. Equally, it would not be correct to think of these positions as being fixed as they will change over time.

Figure 15: The buoyant, stable, struggling spectrum



48. Each city was given a ‘z-score’ according to its performance against other cities for each individual variable. These z-scores were averaged across the variables above to give an overall score for each city, which was then indexed. Cities that were more than one standard deviation above the mean score were classed as buoyant, while those more than one standard deviation below the mean score were classed as struggling.





## Buoyant cities

There are no real surprises in our list of buoyant cities. Overall this group accounted for 21.8 percent of England's population in 2008 (up from 21.4 percent in 1998). It also created around 427,000 private sector jobs between 1998 and 2008. Overall, these are the cities that are prime candidates for major expansion to support further economic and employment growth in the UK.

**Figure 16: England's buoyant cities**

City	Annual Average Population Change (1998-2008)	Real GVA Growth (1998-2007)	Private sector jobs growth (1998-2008)	Average House Prices (£) (2008)	Average JSA and Incapacity Benefit Rate (1999-2008)	Average wages (£) (2008)	Total score
London	0.7%	4.5%	9.4%	355,696	3.2%	653.7	143.3
Milton Keynes	1.4%	4.6%	23.7%	192,611	1.9%	534.3	139.6
Cambridge	1.2%	4.1%	-4.0%	287,493	1.7%	608.6	136.6
Reading	0.4%	4.7%	10.3%	256,879	1.3%	610.3	135.6
Crawley	0.7%	4.2%	9.5%	270,876	1.1%	548.3	132.6
Oxford	1.3%	4.1%	-9.8%	333,253	1.7%	484.3	131.0
Aldershot	0.2%	2.6%	9.9%	260,940	1.0%	599.6	124.3
Bristol	0.8%	4.1%	15.4%	200,467	2.0%	476.6	122.7
Brighton	0.4%	3.8%	24.8%	256,987	3.2%	423.6	119.2

**Source (Figures 16-18):** NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology. NOMIS 2010, DWP Benefits (1999-2008 data). NOMIS 2010, Mid-year population Estimates (1998-2008 data). CLG 2010 Table 581: Mean house prices based on Land Registry data, by district, from 1996 (quarterly) and Table 584: Property sales based on Land Registry data, by district, from 1996 (quarterly). Own calculations for PUA level - weighted by transactions. ONS 2010, Annual Survey of Hours and Earnings (ASHE), average gross weekly residence based earnings (2006 and 2009 data). Own calculations for PUA level - weighted by number of jobs. ONS 2010, GVA NUTS3 GVA (1995-2007) Data. Own calculations for PUA level - weighted by population.

## Stable cities

Our list of stable cities (Figure 17) is a wide group accounting for 31.6 percent of the total English population. Performance varies significantly within this group, with cities like Leeds, Peterborough and Bournemouth coming close to inclusion as buoyant cities and others like Doncaster, Coventry and Rochdale close to being classified as struggling cities.

## Struggling cities

Our list of struggling cities (Figure 18) contains places like Hull, Stoke and Blackburn. Many of these cities are regularly identified as among the weakest city economies in the country. Altogether the group accounted for 4.5 percent of England's total population in 2008 (down from 4.7 percent in 1998) and lost around 54,000 private sector jobs between 1998 and 2008.

“England's cities sit on a spectrum from the most buoyant city, London, to the one that we have classified as most struggling city, Stoke”



**Figure 17: England's stable cities**

City	Annual Average Population Change (1998-2008)	Real GVA Growth (1998-2007)	Private sector jobs growth (1998-2008)	Average House Prices (£) (2008)	Average JSA and Incapacity Benefit Rate (1999-2008)	Average wages (£) (2008)	Total score
Bournemouth	0.1%	4.1%	12.7%	247,884	1.8%	483.3	117.1
Portsmouth	0.4%	3.7%	15.4%	188,565	2.0%	464.4	115.5
Northampton	0.5%	3.8%	13.8%	157,747	2.4%	467.0	112.8
Southampton	0.9%	3.6%	2.2%	192,947	2.0%	424.8	111.8
York	1.0%	2.9%	0.9%	198,587	1.8%	432.9	111.5
Leeds	0.7%	3.4%	9.1%	165,632	3.0%	467.4	109.8
Peterborough	0.5%	5.1%	3.5%	159,730	2.6%	420.3	109.6
Preston	0.3%	4.3%	16.2%	153,406	2.1%	429.1	109.3
Swindon	0.8%	2.8%	-7.1%	167,492	2.0%	502.0	106.6
Ipswich	0.5%	4.0%	7.8%	150,401	3.4%	432.1	106.5
Norwich	0.9%	3.7%	-3.0%	181,130	2.6%	408.0	105.8
Warrington	0.3%	3.5%	-0.5%	173,578	2.0%	515.4	105.4
Derby	0.4%	3.3%	3.7%	143,083	3.4%	533.9	104.0
Chatham	0.3%	3.8%	6.3%	169,959	2.5%	402.9	103.7
Worthing	0.4%	3.2%	-0.9%	209,256	1.5%	405.0	103.2
Luton	0.4%	3.6%	1.2%	164,999	3.1%	459.7	103.1
Southend	0.3%	3.0%	5.2%	208,357	2.4%	385.1	101.2
Gloucester	0.7%	3.1%	-10.5%	158,474	2.7%	465.7	100.0
Plymouth	0.4%	2.9%	7.2%	156,661	2.9%	441.5	100.0
Wakefield	0.3%	3.9%	12.5%	141,450	2.8%	414.2	99.3
Telford	0.6%	2.6%	0.0%	156,239	2.3%	434.1	98.6
Mansfield	0.5%	3.9%	6.4%	119,480	2.9%	435.4	97.8
Manchester	0.2%	3.2%	5.5%	157,501	3.0%	452.6	97.6
Sheffield	0.3%	3.9%	4.8%	142,989	3.5%	409.7	97.3
Newcastle	0.0%	3.7%	10.2%	149,655	4.1%	421.0	92.1
Nottingham	0.4%	3.2%	-7.3%	137,365	3.2%	434.7	91.6
Leicester	0.3%	3.0%	-5.3%	152,382	3.6%	420.4	90.9
Huddersfield	0.5%	2.2%	-2.2%	152,443	2.7%	384.9	90.2
Bradford	0.7%	2.3%	-5.4%	144,373	3.7%	411.2	90.1
Hastings	0.5%	2.7%	-0.1%	161,226	3.9%	359.0	88.4
Blackpool	0.3%	2.2%	-6.3%	160,383	2.4%	436.4	86.6
Coventry	0.2%	1.0%	3.1%	140,848	3.5%	468.4	85.9
Sunderland	-0.3%	3.8%	10.0%	125,744	4.0%	415.5	84.8
Liverpool	-0.3%	3.5%	6.6%	129,886	5.3%	456.6	84.3
Doncaster	0.1%	3.2%	-6.2%	131,744	3.6%	415.1	84.0
Wigan	0.2%	2.4%	4.8%	128,515	2.7%	409.1	83.0
Birmingham	0.1%	2.3%	-7.7%	155,869	4.7%	434.2	82.4
Rochdale	0.1%	2.6%	-0.4%	128,177	3.2%	397.0	82.2
Grimsby	0.0%	2.1%	0.2%	117,804	4.6%	415.3	81.4

Source: As Figure 16

Note: The dotted lines divide those cities half a standard deviation away from the mean - those above the green line are classified as 'robust', while those below the red line are classified as 'vulnerable'.

“Buoyant cities are prime candidates for major expansion to support further economic and employment growth in the UK”



“Struggling cities lost private sector jobs over this period and also experienced slower growth in their public sectors”

**Figure 18: England's struggling cities**

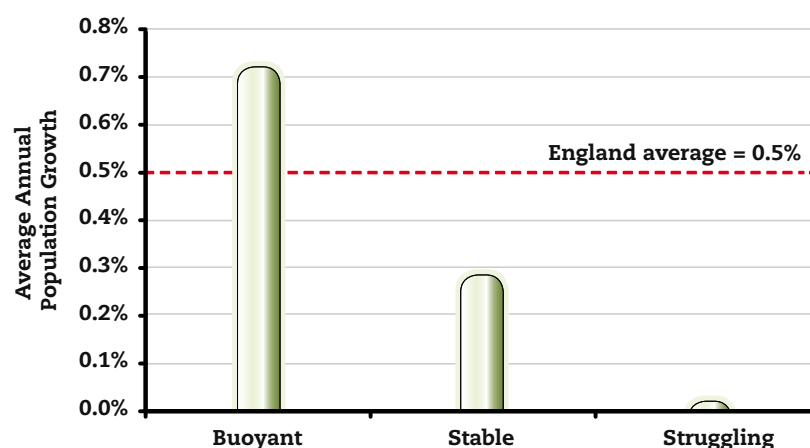
City	Annual Average Population Change (1998-2008)	Real GVA Growth (1998-2007)	Private sector jobs growth (1998-2008)	Average House Prices (£) (2008)	Average JSA and Incapacity Benefit Rate (1999-2008)	Average wages (£) (2008)	Total score
Bolton	0.1%	1.4%	-0.6%	138,806	2.8%	384.8	78.1
Barnsley	0.3%	2.1%	-4.3%	127,628	3.1%	409.2	77.7
Middlesbrough	0.1%	2.0%	-2.1%	131,017	4.7%	403.7	77.4
Hull	0.0%	2.4%	-4.7%	100,478	5.7%	419.5	75.3
Blackburn	0.1%	1.8%	-10.5%	115,883	3.3%	400.6	74.3
Birkenhead	-0.2%	1.7%	-11.2%	160,527	3.6%	401.0	72.5
Burnley	-0.1%	1.6%	-14.3%	107,637	2.3%	399.5	68.8
Stoke	-0.1%	1.3%	-16.4%	117,011	2.8%	389.3	65.6

Source: As Figure 16

### And how do they perform on our metrics?

The populations of our buoyant cities grew faster than the national average between 1998 and 2008. Their combined population increased at a rate of 0.7 percent compared to 0.5 percent for England as a whole (see Figure 19). As explained, however, this is probably still not as quickly as they should have been growing given the high demand to live in these cities. At the other end of the spectrum, the population of the struggling cities stagnated, probably reflecting the lower level of opportunity in these places relative to buoyant cities.

**Figure 19: Average annual population growth (1998-2008)**

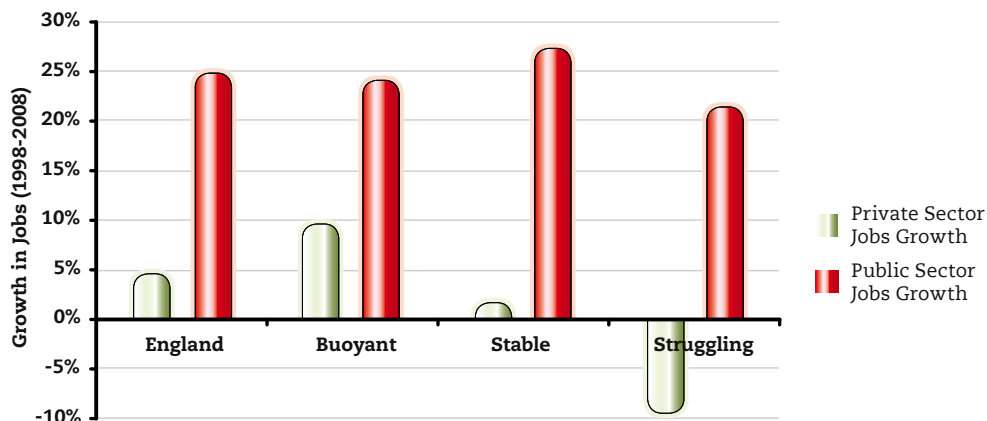


Source: NOMIS 2010, Mid-year Population Estimates (1998 and 2008 data)

Despite their strong private sector economies, public sector jobs growth far outstripped private sector jobs growth in buoyant cities, reflecting the strong growth in public sector jobs overall between 1998 and 2008. Still, this growth was supported by growth in private sector jobs too. Struggling cities, on the other hand, lost private sector jobs over this period and also experienced slower growth in their public sectors. Digging a little deeper, the fastest growing source of employment for all types of cities was education, reflecting the increases in public spending in this area over the past decade or so.

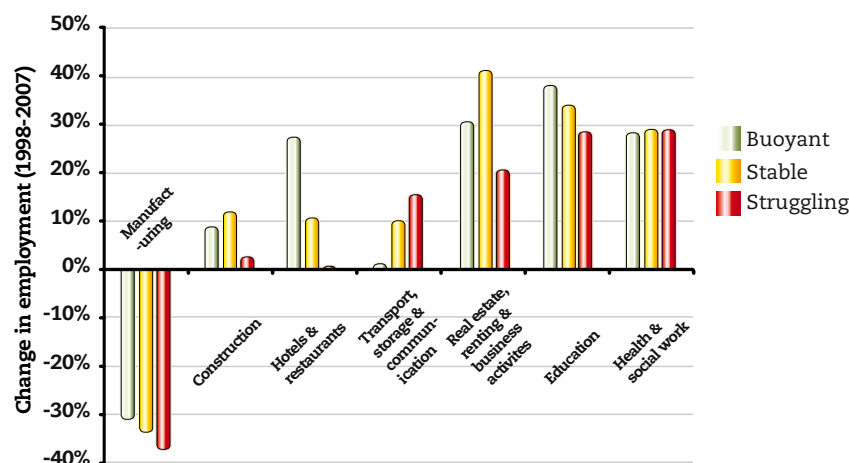


**Figure 20: Public and Private Sector Jobs Growth (1998-2008)**



**Source (Figures 20 & 21):** NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology.

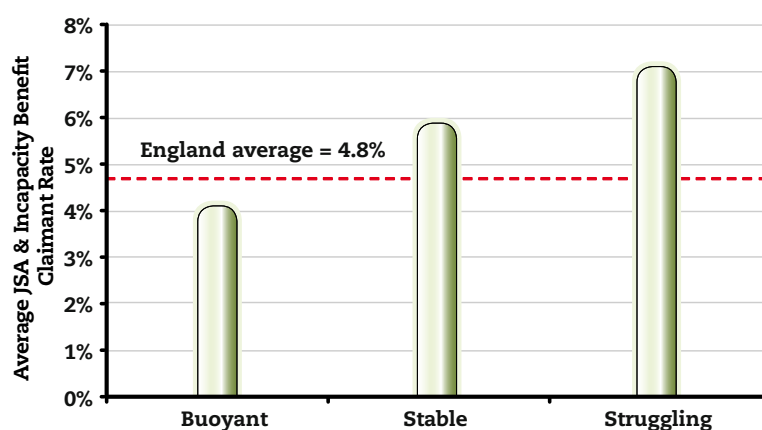
**Figure 21: Jobs Growth by Sector (1998-2008)**



**Source:** As Figure 20

In the private sector, one of the biggest drivers of growth was business services and, in buoyant cities in particular, hotels and restaurants. All cities saw a decline in manufacturing employment, though struggling cities were hit harder than our other two categories. Finally, the average Jobseekers' Allowance and Incapacity Benefit claimant count rate of buoyant cities was only just below the English average between 1999 and 2008, while that of stable cities was above the average. But both groups were well below the struggling cities' average of 7.2 percent (see Figure 22).

**Figure 22: Average JSA and Incapacity Benefit Claimant Count Rate (1999-2008)**



**Source:** NOMIS 2010, DWP Benefits (1999-2008 data).

“Despite their strong private sector economies, public sector jobs growth far outstripped private sector jobs growth in buoyant cities”





## A new agenda for growth for England's cities

England needs to create more private sector jobs. But in order to maximise growth and improve people's access to opportunities, the coalition Government needs to adopt a new approach to growth across the country. There is currently too little recognition of the changes that have occurred in the geography of opportunity across our economy which have made some cities much better suited to private sector jobs growth than others.

Ignoring the implications of these changes has led to poorly designed policies that fail to achieve their objectives, restrict economic growth and limit people's opportunities. The new Government should avoid making the same mistakes.

### ***We need a mixed approach that works with the tide of change rather than against it***

Any realistic strategy that aims to increase private sector jobs and resolve the jobs deficits affecting many of England's cities needs to adopt a mixed approach. Active labour market, job creation and 'linking people to jobs' policies all have a role to play, though expectations about their impact should be kept firmly in check. And while population rebalancing is controversial, it too should be allowed to play its part, as it has in the past. It is a normal part of the adjustment process in all economies.

The optimum size of different cities changes over time in response to shifts in their relative capacity to generate jobs. Allowing their populations to adjust accordingly, and for cities to reach their optimum size, is an important way of maximising economic growth and increasing total employment.

### ***Buoyant cities need to be expanded***

Policy makers should acknowledge that the geography of England's private sector growth has undergone a shift and enable further expansion of places like Cambridge, Milton Keynes and Reading. In the post war period, the UK has not done a good enough job of expanding buoyant cities because it has not been capable of building enough houses in areas of high demand. This needs to change.

Population shifts reflect people's own choices about where they see the greatest opportunities and there are clear signals – particularly house price changes – that reflect people's preferences about where they want to live. There is a strong case for government to respond to signals about where growth is occurring and where people want to live by enabling the physical expansion of high demand areas.

- **Start making the case for major expansion in buoyant cities.** There is hostility to further expansion in many of them.
- **Significantly increase house building** by providing stronger financial incentives for local authorities to bring forward land for housing.<sup>49</sup>

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49. Aldred T (2010) *Arrested Development: are we building houses in the right places?* London: Centre for Cities

“The average  
Jobseekers’  
Allowance  
and Incapacity  
Benefit claimant  
count rate of  
buoyant cities  
was only just  
below the  
English average”



- **Make planning rules more supportive of growth**, by reforming brownfield land regulations and being more willing to build on greenfield sites.
- **Prioritise strategic capital investment in buoyant cities** that have the most chance of generating jobs through their expansion.

### ***Struggling cities need investment, but some of the goals need to change***

Expanding buoyant cities does not mean that those cities currently struggling to generate enough jobs should be completely abandoned by their inhabitants or by policy makers. Struggling cities should remain the focus of intensive government support, but the objectives of this investment should be changed.

The goals in these cities should be to promote realistic levels of economic growth, improve standards of living for residents and support people in accessing opportunities wherever these can be found, whether that is in their local area or elsewhere in the country.

- **Stop claiming that jobs can be provided for people wherever they choose to live.** Lofty policy rhetoric leads to poorly thought out policies and feeds unrealistic aspirations about the growth potential of struggling cities.
- **Change the objectives of built environment policies in struggling cities** so that they focus on improving quality of life for residents rather than subsidising further expansion – for example, of the housing supply or commercial property.
- **Continue to invest in business growth assets, but be realistic about what can be achieved.** Policy makers should still invest in transport and public realm improvements that improve the business environment and support jobs growth.
- **Focus on educational attainment and skills development**, but recognise that people are mobile and will often move if they see greater opportunities elsewhere.

“Active labour market, job creation and ‘linking people to jobs’ policies all have a role to play, though expectations about their impact should be kept firmly in check”



**“Lofty policy rhetoric leads to poorly thought out policies and feeds unrealistic aspirations about the growth potential of struggling cities”**

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Any errors or omissions are the responsibility of the authors.

## Agenda for Growth

The Centre for Cities' *Agenda for Growth* research programme will set out a radical new approach to economic growth in England's cities. Our aim is to provide high quality analysis and advice that helps cities and national government think about how they can work together to raise economic growth and generate more private sector jobs.

We will be publishing three major reports as part of this series. They will analyse the challenges of economic growth in England's cities and set out what we see as the key components of a more realistic, evidence-based approach.

**Private sector cities:** this first paper analyses variations in private sector jobs growth across England and provides a new typology of change in England's cities. It shows that there has been a major shift in the potential for private sector jobs growth across the country and argues that policy makers at the local and national levels need to respond by adjusting their strategies for different types of cities.

**Business growth policy:** Our second paper will take a fresh look at industrial policy. We will examine the role of the state, including cities and national government, in directly supporting business growth across the country and explain what we think should be the key ingredients of a new, more realistic business growth policy.

**Renewing struggling cities:** The third paper will set out a new strategy for physical regeneration in underperforming cities. We will explain why the objectives of built environment policies in cities that have been struggling with persistent poor performance need to change and set out the content of a new strategy.

If you would like to discuss, comment on or sponsor future work in this series please contact **Chris Webber** on 020 7803 4314 / [c.webber@centreforcities.org](mailto:c.webber@centreforcities.org)



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