

Spatial economic rebalancing: the implications for Birmingham

Regional resilience: from theory to policy

Local Economic Growth: Recession, Resilience and Recovery

11th-12th July 2013

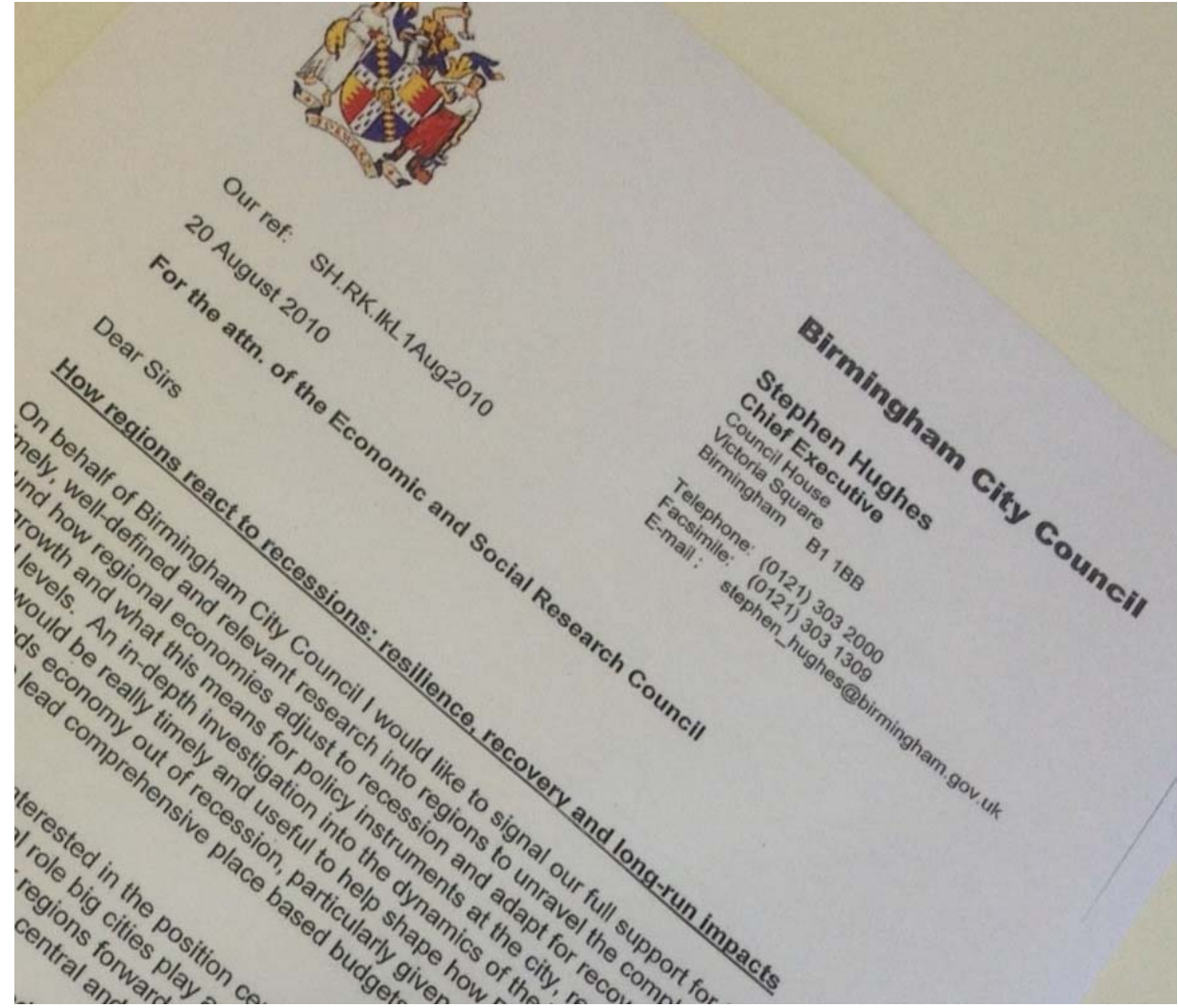
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1. Recession, resilience and recovery

- My lens
- Balance of Priorities
- Letter of Support



The real crisis is the bankruptcy of ideas

- Growth
- Prosperity
- Deficit singular obsession (not balance of trade for example)
- Polarisation and Poverty
- Liquidity levels and the circular flow of income
- Economic 'science' run out of steam . . .

The policy challenge for Birmingham and other places outside London and the South East

- the challenge of micro economic strategy in the context of macro economic policy – localism as far as devolved economic initiative through LEPs
- the challenge of shaping the macro economic position – policy led by financial interests
- the challenge of succeeding and growing independently as a major city in a global context – comparative leverage issues with competitive cities outside UK

2. The ESRC Research: what it says

- Spatial imbalance centred on London in particular and wider South East
- Sectoral imbalance – dependency on financial services
- Public sector – overly dependent vis a vis private sector
- A ‘north-south’ divide
- A new-found concern to rebalance the economy (though RDA’s since late 1990’s)
- 1993-2007 economic growth due to expansion of mortgage finance, bank lending and private sector debt – £1.4trn in 2007
- Boom in knowledge intensive services in London & SE – growth of public sector in the north
- Widening gap between North and South since 1980s (excluding London)
- London turnaround from early 1990s

What it doesn’t say

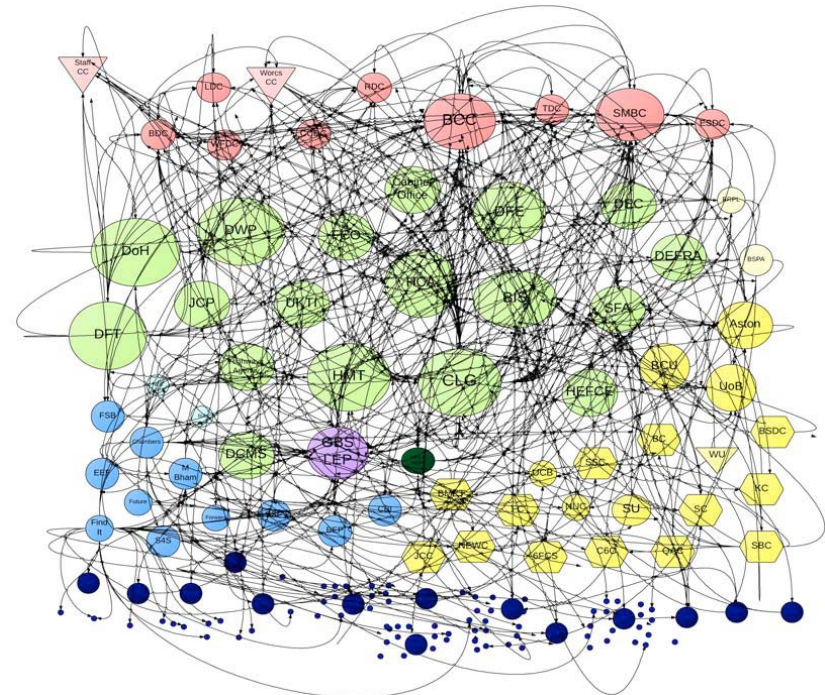
- What the economic and policy instruments are to address the scale of the challenge?
- In other words, what works!

The Regional Development Models - issues

- Balanced growth – do we know what it looks like? A federation? Germany? Strong autonomous regions? Spain?
- Sectoral diversification or specialisation . . .
- Kaldorian school – circular and cumulative causation and importance of the export base
- NEG school – increasing return effects – spatial agglomeration – generate factor flows – more knowledge spillover – specialisation – sectoral strengths
- Baldwin 2003 infrastructure investment reducing transport costs between core and peripheral regions
- Diseconomies – congestion costs, market crowding, rising costs in London and South East – public policy response to unlock those issues – investment led v ameliorative public expenditure
- Also no clarity about what needs to be done or the economic instruments to be used to rebalance the economy – notions of decentralisation and de-concentration and diseconomies

3. An overly centralised state

- Central Government holds all economic powers – monopoly
- No Stone Unturned Challenge and the Greater Birmingham Pilot Project
- The Government Response
- The Single Pot
- Whitehall – horizontal strategic government and devolution
- Plan A to Infrastructure Investment Statement – prioritisation of limited future capital investment – roads, science, energy, technologies



Capital cities: financial deregulation and the rise and rise of London

- London a powerful world city – a giant multiple monopoly
- Centre of national, administrative, economic, financial and political power
- Capital cities contain strong private sectors and are more integrated into global networks
- Contain HQs of companies and major financial institutions which provide easier access to risk capital
- Advanced producer services
- Less concentration elsewhere but still specialisation – Paris, Washington, New York
- London hugely significant agglomeration advantages – but this can hide the downside of London's domination of the national economy
- Does not need to be at the expense of everywhere else
- De-centralisation and de-concentration can aid national economic performance, exploiting the full productive potential of the economy as a whole . . ?
- A response to London's growing diseconomies
- Solution is to make it 'smart growth' – coupling Birmingham and London - both grow in a mutually reinforcing and sustainable way, adding value and performance to each other and the UK economy

4. Birmingham spatial rebalancing: opportunities

- Securing sectoral and spatial rebalancing advantages
- Securing agglomeration advantages
- Embracing proximity to London
- Exploiting wider connectivity and central UK location
- Exploiting sector strengths
- Reconciling the imbalance between the private and public spheres
- Making itself attractive for investment, skills and people through a distinctive and complementary 'offer'

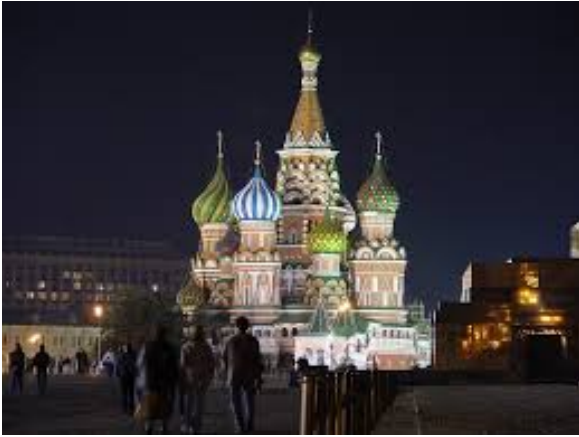
Pivotal role for the city

- Birmingham is the largest city and economy in the UK outside London
- Birmingham has significant connectivity, critical mass and economic and social diversity
- In spite of the recent flat-lining of the national economy, the city has significant large scale and long-term investments in the 'pipeline' that must be planned for and realised to maximise value creation and bridge its output gap
- However, because it is not a capital city, with the power over central government policy which London can exercise implicitly, it has to respond to these major economic challenges and opportunities using the same restricted resources and policy 'levers' as the many other cities and towns elsewhere in the UK
- This 'ones size fits all' policy approach by central government therefore fails Birmingham by understating its national role (and the role of other core cities outside London too)

Birmingham: critical mass



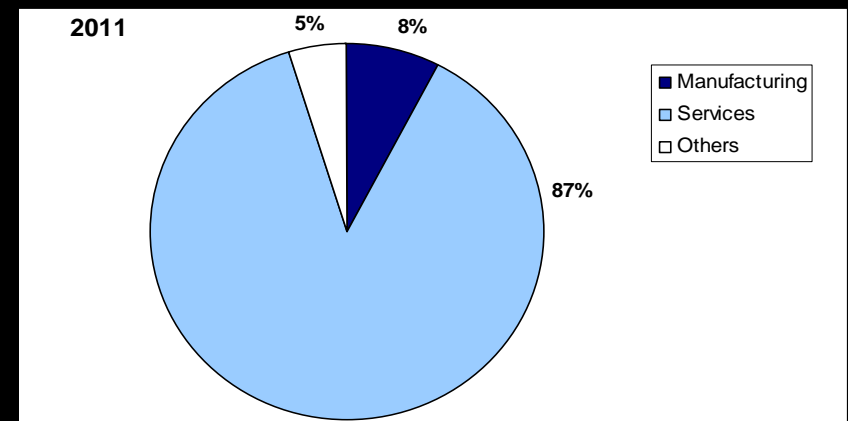
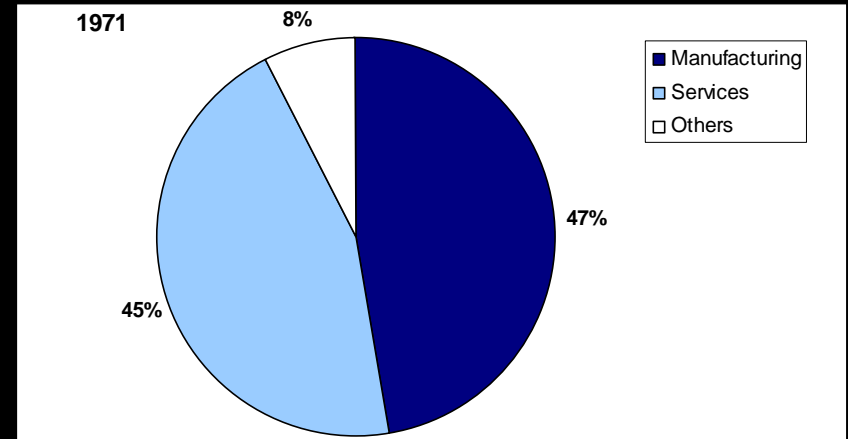
Birmingham 2025: “hotspot” competitive city



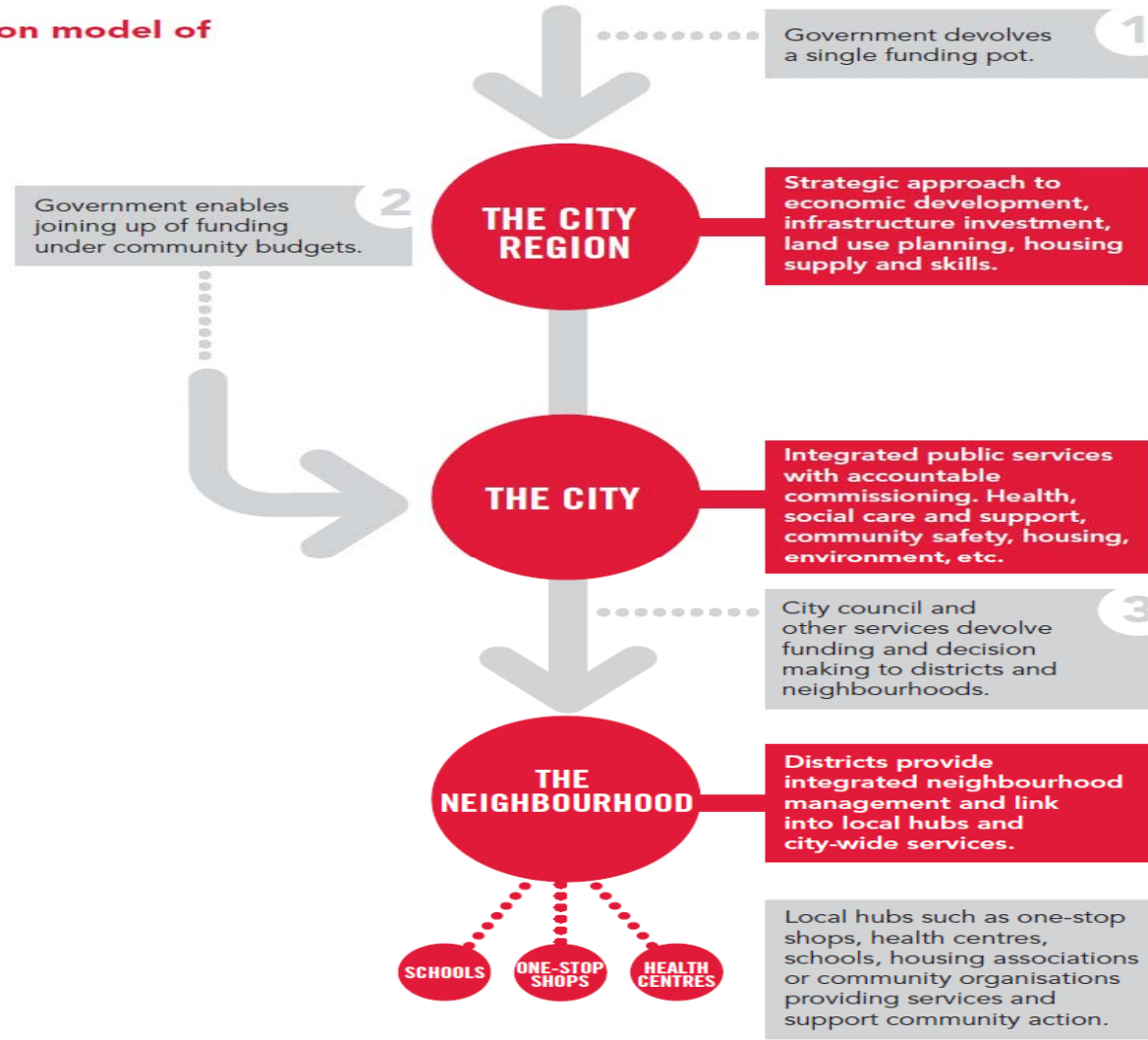
Source: Economist Intelligence Unit (June,2013)

Birmingham's Economic Narrative

- Manufacturing boom until late 1960's
- Automotive & light engineering – two thirds manufacturing employment
- 1970's: onset of steady decline in manufacturing
- 1971: 250,000 in manufacturing in Birmingham, almost half of all employment
- By 2011 this had reduced to 37,500 employees
- Service has expanded but high levels of unemployment during the 1980's
- During the boom years: public sector rather than private sector job growth. Eyes shut?



The Triple Devolution model of city government



Triple devolution model of city government

- **City –region:** - strategic approach utilising the Greater Birmingham Local Enterprise Partnership building on Greater Birmingham Growth Project – the Heseltine Pilot - and the City Deal
- **City** – leveraging the full weight of the second largest local authority in Europe
- **Neighbourhood** – empowering grassroots resilience and strong communities
- **National** – leveraging Core Cities national role through the national Core Cities Cabinet

Greater Birmingham Strategy for Growth

- Growing the number of successful businesses
- Building on our sector strengths and opportunities
- Stimulating innovation in products, processes, services and business structures
- Improving our skills talent pool
- Improving physical and digital connectivity
- Optimising the economic value of the region's assets



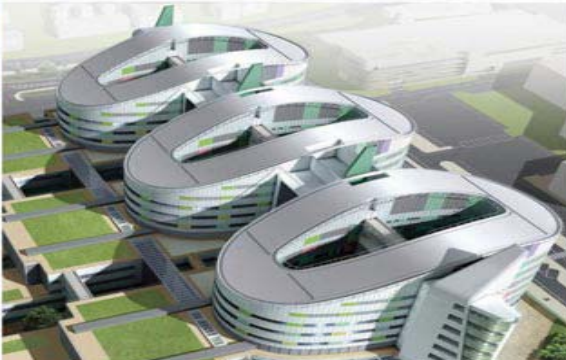
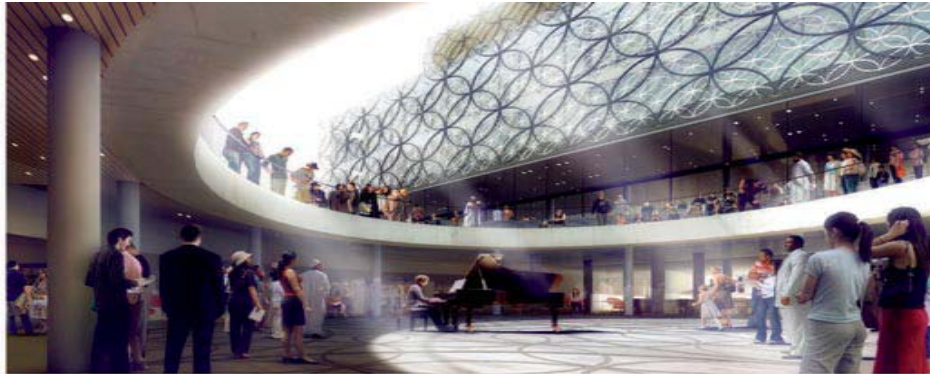
GBSLEP: sector strengths and opportunities

High Growth, High Value Add	High Volume, High Job Creation	High FDI potential
1. Advanced Manufacturing	1. Tourism & Hospitality	1. ICT
2. Life & Health Sciences	2. Business, Professional & Financial Services	2. Automotive & Manufacturing
3. Digital & Creative	3. Food & Drink	3. Food & Drink
4. Business, Professional & Financial Services	4. Healthcare	4. Logistics
5. Low Carbon & Environmental Technologies & Services	5. Construction	5. Life & Health Sciences

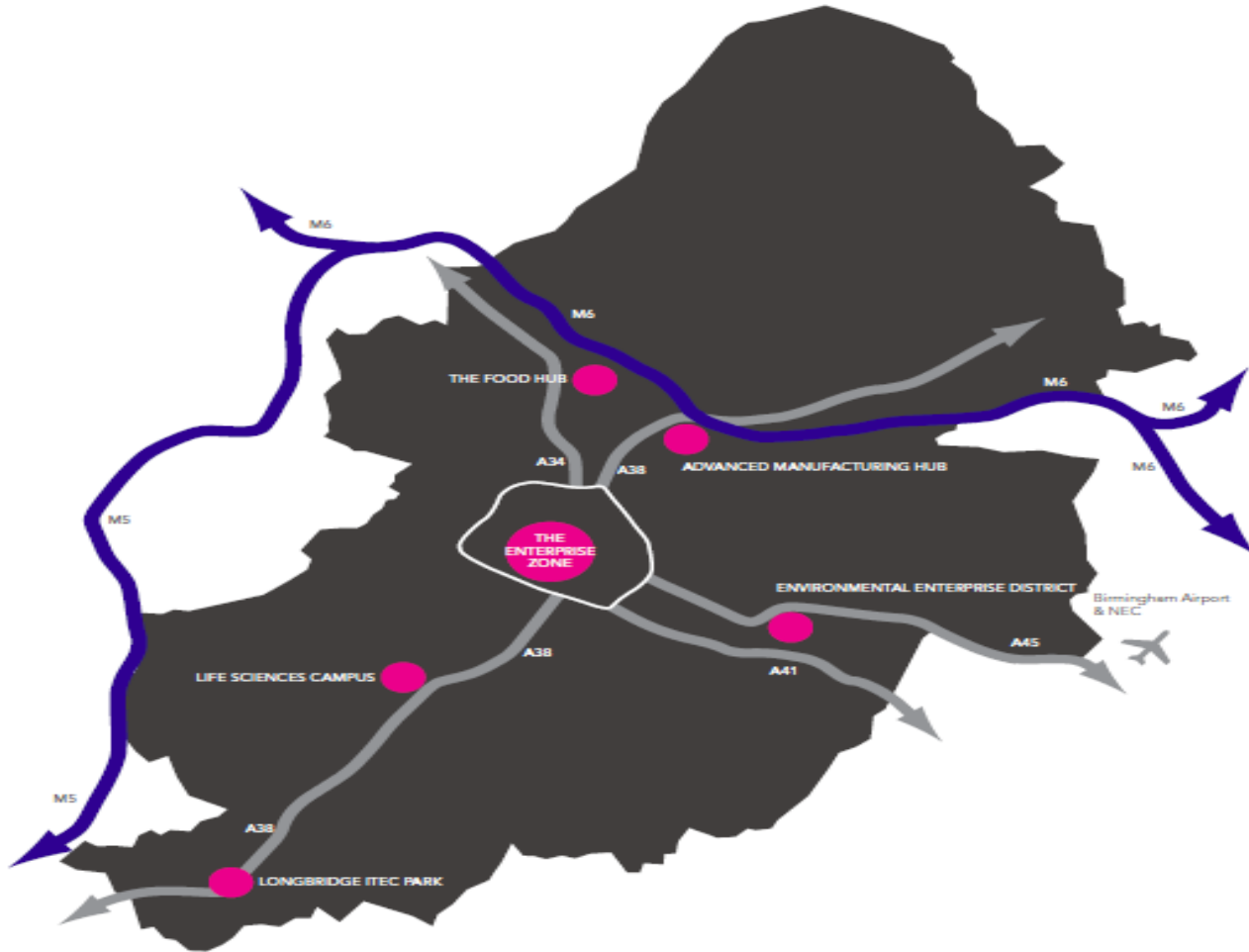
Local economic initiatives: sectoral rebalancing

- Big City Plan
- 6 Economic Zones
- Advanced Manufacturing Hub
- City Centre Enterprise Zone
- Tyseley Environmental Enterprise District
- Longbridge ITEC Park
- Life Sciences Park
- The Food Hub
- Policy – simplified planning, access to finance, gap funding, business development programmes, tailored training and recruitment packages, services of Business Birmingham
- Zones will attract £1.5bn investment, generating 1.8M sqm of new floor space and 50k jobs

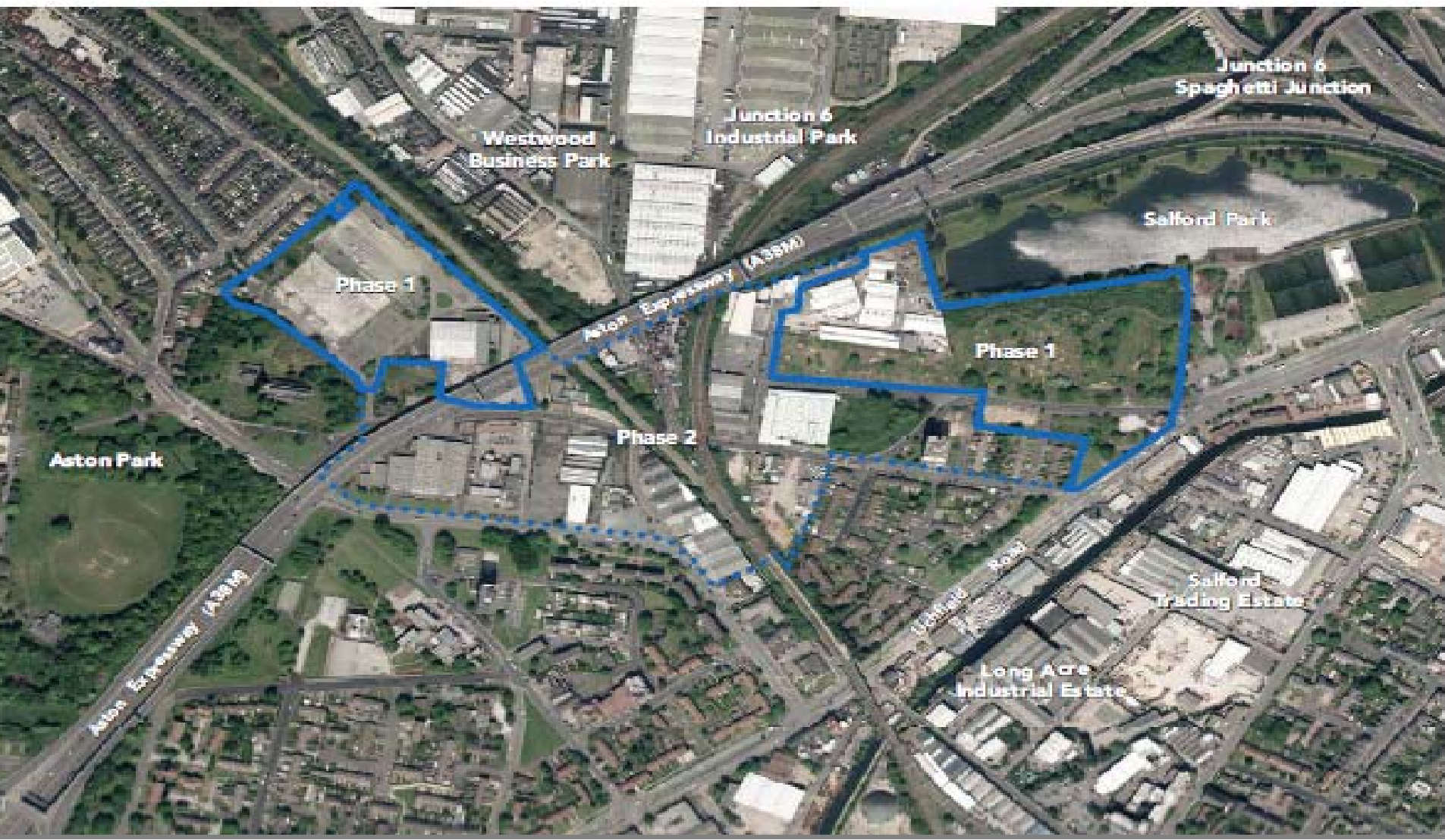
Big City Plan



The Economic Zones



Advanced Manufacturing Hub



JLR: importance of supply chains

- JLR spend per annum on UK-based suppliers is £5 billion
- IAC one of biggest suppliers to JLR – 100 UK based suppliers
- 2,000 UK based suppliers
- 235 production suppliers
- 1,732 non-production

£125M Advanced Manufacturing Supply Chain Initiative



City centre enterprise zone: 26 sites, Paradise Circus below



Tyseley Environmental Enterprise District: low carbon economy



Longbridge legacy: Longbridge ITEC Park



Life Sciences Campus



The Food Hub



Spatial rebalancing and city agglomeration: - HS2



£650M New Street



Birmingham Airport: spatial and sectoral rebalancing



- Airport expansion worth 250,000 jobs
- 36mppa, with single runway
- 70 mppa, with a second runway
- 15 million people within an hour with HS2
- Advanced Manufacturing Hub proposal – UK Central beside the airport –M42 Gateway
- £55 billion exports from catchment area 2011 – high value manufacturing sectors – transport, automotive, aerospace, machinery, military equipment
- The catchment holds a competitive advantage for UK’s automotive industry with flagship brands on our doorstep
- Relieve London – 31 mins with HS2
- 80mppa within an hour within catchment using other airports
- Birmingham Airport largest share of manufacturing activity out of any airport catchment in the UK. Current alignment of UK connectivity and productive sectors is not maximising economic activity
- New route development with India and China and Brazil in train

Plugging the Midlands into Global Growth

12 reasons to expand Birmingham Airport

250,000+

The estimated number of jobs in the wider economy that expanding Birmingham Airport could support

Exports to long-haul markets without a direct air link

£25.1 billion



£55 billion

Exports from catchment in 2011

19 million

the number of people for whom Birmingham Airport is the most convenient airport from 2032, making it the most accessible airport in the UK



The amount of the UK's FDI currently flowing into Birmingham Airport's catchment

70,000,000

Number of passengers an expanded Birmingham Airport could handle



Number of passengers that currently use London airports that will be able to access Birmingham Airport in under an hour from 2032

45,000,000

3.3 million

Managerial workers in Birmingham's catchment, more than any other airport

2nd

Largest catchment area of any UK airport for business and leisure travel



1/2 million businesses

Located in Birmingham's catchment across the Midlands, mid-Wales and the South West

6 1/2 million employees

500,000

Number of Air Traffic Movements that an expanded Birmingham Airport could handle



Birmingham has the largest share of manufacturing activity of any airport catchment in the UK

But..

The current alignment of UK connectivity is not maximising economic activity in the productive sectors

Creating the infrastructure to plug the greater Midlands economy into global wealth for the next century...

Make best use of existing airport capacity

Birmingham's runway extension will be complete in Spring 2014, allowing the Airport to treble capacity now and take the pressure off the capacity constrained South East.

Invest in existing road and rail connectivity

Improvements to the M42, the West Coast Main Line and London Midland's Project 110 will take place over the next five years reducing surface access times to the Airport.

Deliver local surface access improvements

Investing in a light rail system and reopening the Whitacre Link, an unused piece of railway linking Birmingham to the East Midlands, would dramatically enhance local access to the Airport and economic hub.

Support the development of Resorts World Birmingham

It will create 1,750 construction and 1,100 long-term jobs in the region.

Promote business parks and capitalise on Birmingham's Enterprise Zones

Make the M42 corridor the hub for business, manufacturing and export activities.

Expand Birmingham Airport to meet the long-term needs of the Midlands and UK economy

A second runway at Birmingham will support growth of up to 70 million passengers per annum and bring 32,000 people out of night flight noise. The new HS2 station/ airport terminal will represent an integrated transport hub for the Midlands providing high-speed domestic and long-haul international connectivity for businesses and passengers.

High-Speed Two

Plans are well under way to open a new HS2 station in 2026 and bring 45 million passengers currently using London airports within an hour of Birmingham Airport. Phase 2 of HS2 will be operational in 2032 and will make Birmingham Airport the most accessible airport in the UK.

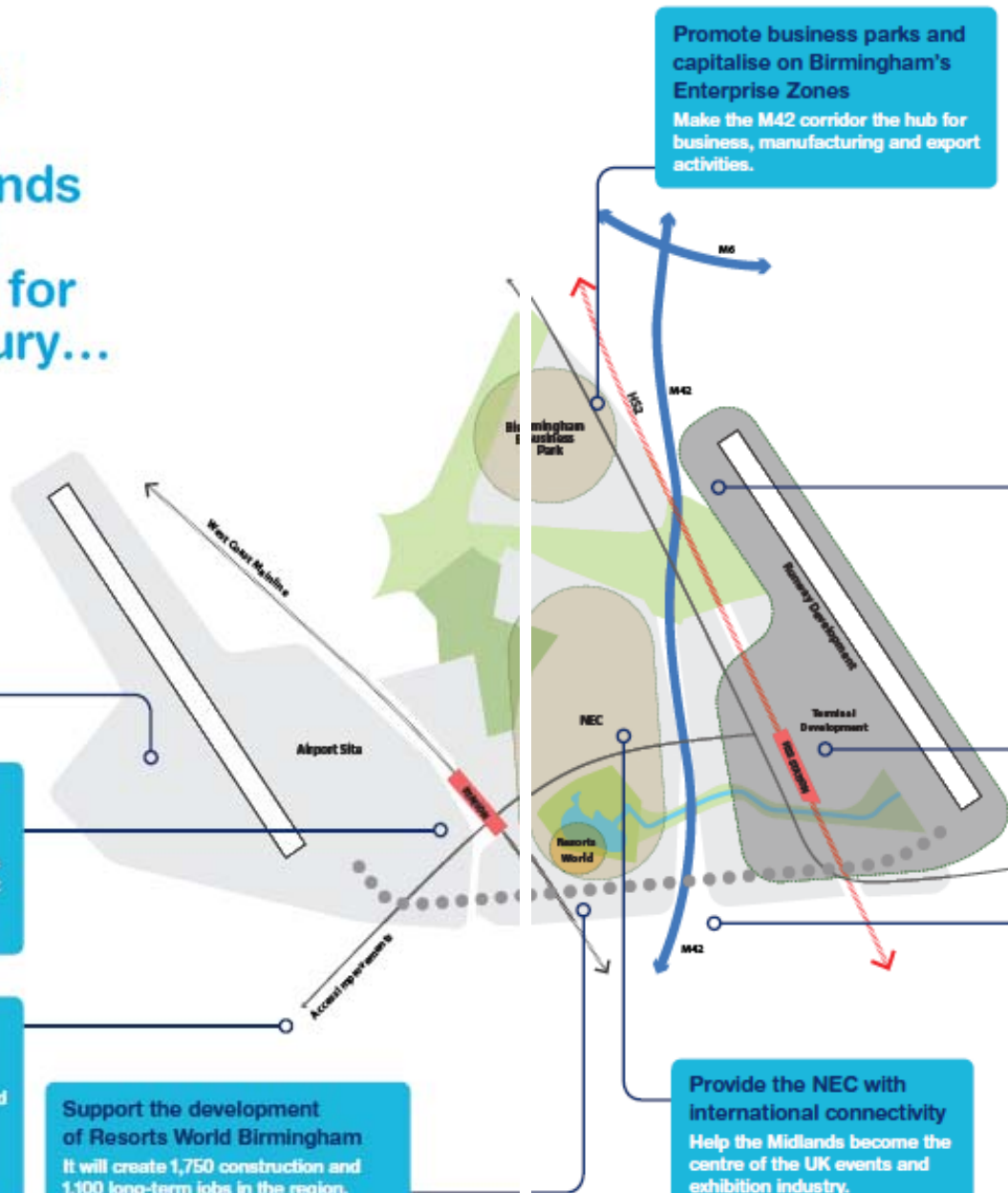
M42 Gateway project

This scheme has been identified by Lord Heseltine as a key initiative and investment in it will start the infrastructure development pipeline that will create the engine room for the Midlands economy.

Provide the NEC with international connectivity

Help the Midlands become the centre of the UK events and exhibition industry.

... and in the best possible central location for the UK



Metro extensions



5. The future solution to national crisis and imbalance is leveraging cities

- By 2050 the world's urban skeleton will be set for generations
- Over 70% of the world's 10 billion people will live in cities
- Challenge for existing cities is new cities
- Cities are the new business sector: New York creating an estimated \$100 billion market in smart cities through applied urban science

A special case for Birmingham

- Big city at heart of £94billion economy – agglomeration advantages
- Connectivity at centre of UK – can also help bridge the north south divide
- Can offer something distinct from London - Advanced Manufacturing as part of new industrial policy for Britain
- Birmingham is on the up - Economist Intelligence Unit only city outside London in top 100 'hotspot' cities and 140 of Birmingham companies made High Growth 10,000 League – (turnover £10.4bn)
- Global business is planning strategy from a city rather than country perspective what about Governments?
- Birmingham and London coupling – a potential new relationship in shared markets - integration, airport's policy, distinct sector specialisms that complement, supply chains, infrastructure and housing and labour market solutions

Solution is better utilisation of core non-capital cities

- The 'second tier' cities – the 'middle' of the urban system
- A 124 second tier cities contribute 80% of Europe's metropolitan area and are fundamental to securing future sustained balanced economic performance for their nations (Parkinson, M. et al; 2012)
- Our eight EnglishCore Cities in England deliver 27% of the country's economic output and contain conurbations of 16 million people
- Independent forecasts show the potential for these eight cities to deliver an additional £61 billion GVA and 1.3 million jobs above current expectations over the next two decades

State systems: responsibilities and local autonomy

GROUP OF COUNTRIES	FEATURES	TRENDS IN COMPETENCIES	LOCAL REVENUES & AUTONOMY
Federal states (Austria, Belgium, Germany)	Constitutionally recognised, shared powers between central and sub-central levels (states)	Not significant changes, reinforcement of federal organisation in Belgium	Medium
Unitary 'Northern' states (Sweden, Finland, Denmark, Norway)	Centralised states with strong local autonomy	Rationalisation and unification of some local tiers (counties, municipalities aggregated into regions)	High
Unitary regionalised states (Italy and Spain)	Strong autonomy of intermediate levels (regions)	Fast devolution and tendency to introduce federal agreements	Medium-high & increasing
Other unitary states – 'old' Member States (France, Greece, Ireland, Luxembourg, Netherlands, Portugal, UK)	Different institutional forms with more (UK, Netherlands, France) or less power to local government (Portugal, Greece)	On-going but slow devolution and reorganisation in UK and France. Slow-down or devolution halt in Portugal and Greece	Medium (high in France)
Other unitary states – 'new' Member States (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Cyprus, Malta)	States undergoing restructuring; fragmented local government	Re-establishment and reinforcement of local governments; more articulated devolution process in Poland	Medium low

“In an age of austerity why invest beyond capital cities?” – key policy messages

- Key drivers of territorial performance are innovation, economic diversity, skills and human capital, connectivity, place quality, and strategic governance capacity
- Territory and places matter more not less in a global world
- EU needs a city-driven policy – competence issues
- Second tier cities closing the gap in some cities(GDP per capita 2000-07) – 16 out of 26 EU states
 - in Austria, Germany, Spain, Netherlands all second tier cities had higher growth rates than their capitals
 - Three quarters in France
 - Half in Belgium
 - Third in Italy
 - One in Ireland
 - Nil in Greece, Portugal, Hungary, Poland, Slovakia, Estonia, Lithuania and Bulgaria
- Evidence of de-concentration and decentralisation resulting in higher economic performance

6. The policy challenge of spatial imbalance

General conclusions

- Recession is hitting core cities and gap widening with capital cities
- Polarisation and disparities widening within cities and across the nation
- Local leadership is critical to shaping cities trajectory
- Horizontal and vertical integration is possible within nation states
- Shared responsibilities and clarity of roles is possible within nation states
- Govt's mainstream investment – is it rebalancing or tackling diseconomies within London as priority rather than investing in solutions outside?
- Key to success of national policies – local discretion, shared values, flexibility and trust
- Long term investment is crucial
- Decentralisation of powers and resources matters
- Capital cities matter but not at the expense of everywhere else
- Decentralisation and de-concentration can help economic performance

Actions speak loudest

Early 'no cost' action

- Move the political and administrative capital to Birmingham and more Government and public sector buildings and estate out to regions – Extend Lyons (worked in Brazil)
- Strengthened leadership through combined authorities (and conurbation mayors?)
- Realise and build from Lord Heseltine recommendations and Government response rebalancing central-local relations and way Whitehall works – new strategic horizontal and holistic role but doing much less
- Establish strong policy for core cities– next 30 years almost all global growth in cities – existing cities in a hugely competitive global race - eradicating one size fits all 'placeless policy vacuum' policy
- Empower and embed the leaders of the core cities and its newly established Cabinet as integral part of UK governance
- Secretary of State for England and English Office?
- Tax breaks linked to reinvestment - £750 billion liquidity in UK Corporates – Corporates to support SMEs?
- Systemically monitor polarisation impacts and address poverty
- Move to single whole place based budgets
- Enable greater use of recyclable investment models

A core cities coordinated investment strategy led by localities

Longer Term strategy

- What is central government's contribution to Birmingham's national role?
- What is the future optimum relationship between London and Birmingham?
- Need a prioritised investment strategy geared to core cities and their regions outside London, linked to an advanced industrial strategy and building the export base, led and directed by localities
- Programmes and schemes should demonstrate rebalancing effects as part of maximising growth and jobs