

# The Economics Behind the Move to 'Localism' in England

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## Abstract

This paper explores the economic thinking behind the UK Coalition Government's new framework for achieving local growth and the creation of Local Enterprise Partnerships (LEPs) in England. While the government's *Local Growth* paper sets out ambitions to achieve greater spatial and industrial balance across England (and by implication the UK), in practice there are competing economic ideas in circulation within government which have influenced the 'base' to policy in different ways. A 'space-neutral' approach has influenced the proposed approach to planning in the National Planning Policy Framework, while variants of the New Economic Geography and recent Place-Based Approaches can be seen as having an impact in terms of documents such as *Cities* with its proposals for decentralisation. While recognising that policy is still evolving, we argue that so far at least there is a mismatch between the 'rhetoric' and 'policies' of *local growth* and its limitations in practice, due to inconsistencies in the way that different economic ideas have been adopted in practice. As a result, the paper highlights six key disconnects and limitations of the economics behind the move to LEPs. In particular, it argues that the resulting 'bottom up' configuration of LEPs can be criticised – just as Regional Development Agencies were – as having inappropriate boundaries and scales. Moreover, quite how the 'duty to cooperate' is to be enforced is far from clear: just how will stronger places be incentive to cooperate with weaker places? Overall, how far the government goes in addressing issues of powers, resources and governance arrangements will to a large extent determine to what extent the policy 'base' is actually place-based in practice.

**Keywords:** Local Growth, Localism, Regions, LEPS, Enterprise Zones, neo-classical theory, New Economic Geography, Space-Neutral vs Place-Based Approaches

**JEL Classification:** R5, R58, O25

## Introduction

It may appear to be somewhat of an over-simplification to compare British policy making in Whitehall with making a pizza. Nevertheless, there are useful parallels that can be drawn to illustrate an examination of the economics behind the Coalition government's *local growth* and creation of Local Enterprise Partnerships (LEPS).<sup>1</sup> In particular, three basic layers can be identified in both. A pizza is often completed by a scattering of cheese, which goes on top of the chosen topping, which is layered onto the base. On a visit to a restaurant we may take time to choose our favoured topping. However, in practice, it is not the topping that marks an outstanding pizza, but the quality of the cooking of its base.

Similarly, it could be argued that at a basic level, UK policy making in Whitehall involves three key elements (see Figure One). The top layer is the presentation of the political and policy case ('rhetoric') that accompanies policy making, which is reflected in Ministerial speeches and statements and in the phrasing of the supporting policy documents. The purpose is to communicate (and sell) to a public or professional audience the direction of travel and intended policy outcomes. Supporting the 'rhetoric' are the policy initiatives ('policies') that are designed to deliver the intended outcomes. The temptation, is to focus almost exclusively on the complex menu, variations and synergies (or not) between these top two layers. This is particularly so, as there are often inconsistencies. In their 'rhetoric', the previous Labour government emphasised their devolution and decentralisation credentials (e.g. HMT et al, 2004). Whilst there was significant devolution to Scotland, Wales and London early on, Labour's approach towards localism became increasingly 'conditional' upon meeting Whitehall's policy priorities and Regional Development Agencies (RDAs) were constrained in terms of what they could do and what targets they had to meet (Hildreth, 2011).

To focus on the first two layers almost exclusively can result in missing an important lesson from the humble pizza. In parallel to the pizza base, the economic framework ('base') is the frequently neglected but crucial element which fundamentally underpins both the 'rhetoric' and the 'policies'. Whilst the 'rhetoric' and the 'policies' are constantly

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<sup>1</sup> Local Enterprise Partnerships (LEPs) were announced in 2010, with *Local Growth* anticipating that they would "provide the clear vision and strategic leadership to drive sustainable private sector-led growth and job creation in their area" (HMG, 2010; 13).

changing, the 'base' remains remarkably constant (Richards, 2001). Indeed, arguably until recently, since the end of the 2<sup>nd</sup> World War there have been only three dominant paradigms in UK economic policy (Balls et al, 2006; Hildreth, 2009): Neo-Keynesian (post-1945 to the late 1970s); neo-classical (exogenous growth) (late 1970s to the mid-1990s) and the *new regional policy* (mid-1990s to 2010), which saw its roots in endogenous growth theory (ibid).<sup>2</sup> To follow our analogy has the 'base' changed again under *local growth*? And whether it has or has not, does the 'base' of economic ideas that underpin *local growth* fit consistently with the 'rhetoric' by which it is presented or the 'policies' by which it is operated?

*Figure One – UK 'policy' model'*

Pizza layer	Layers of policy	Examples	
1. Scattering of cheese	Rhetoric	e.g. "create a fairer and more balanced economy"; "cities are engines of growth"	
2. Topping	Policy initiatives	e.g. LEPs; RGF; EZs; TIF etc	
3. Base	<b>Economic and conceptual framework</b>		
	<b>When</b>	<b>Dominant</b>	<b>Influence</b>
	1945 to mid 1970s	Neo-Keynesian	
	Mid-1970s to mid 1990s	Neo-Classical	Exogenous growth
	Mid 1990s - 2010	Neo-Classical	Endogenous growth
	2010 onwards	Neo-Classical	New Economic Geography, Place-based approaches

The Coalition stated that their aim is to implement a new framework for achieving *local growth* (HMG 2010 and 2011). The 'rhetoric' is underpinned by four main themes, laid alongside the Government's overall objective of achieving long-term macro-economic stability, of which reducing the financial deficit is a key part. These include a mix of (apparently) 'space-neutral' and 'place-based' approaches:

- *To realise the potential of every place;*
- *To shift power downwards to local communities and businesses;*
- *To rebalance the economy; and*
- *To promote efficient and dynamic markets.*

Overall, this approach is summed up as follows:

*"The Government's economic ambition is to create a fairer and more balanced economy – one that is not so dependent on a narrow range of economic sectors, is driven by*

<sup>2</sup> Hildreth (2009) details the three paradigms and associated sub-national policy implications.

*private sector growth and has new business opportunities that are more evenly balanced across the country and between industries. The Government is therefore determined that all parts of the country benefit from sustainable economic growth.” (HMG, 2010, page 5)*

In analysing 'local growth', considering the conceptual base *behind* 'policy' and 'rhetoric' is important for two key reasons. First, there is a limited value in debating *local growth* without understanding what the thinking is behind it. It is important not to be deflected by the 'rhetoric' and the 'policies' themselves. Second, it is important to understand what really is going on in Whitehall, as a government administration works to maintain a consistent narrative to protect its corporate memory and manage inevitable policy tensions across departments.

Labour's 'new regional policy' left an extensive audit trail via HM-Treasury led papers. In contrast, the documentary evidence to explain what is behind Coalition Policy is relatively limited, although growing. Nevertheless, we can look for clues. The first, as indicated above, is that the 'big ideas' or paradigms that underpin national economic and public policy management change remarkably infrequently. In the economic sphere a new-classical paradigm has been dominant in the UK with variations since the late 1970s and remains highly influential today, with its accompanying 'space neutral' policy implications. This has shaped the direction of travel of certain policy developments, especially with regard to the National Policy Planning Framework (NPPF) (CLG, 2011) and Ministerial 'rhetoric' about relaxing planning rules, which is focusing on removing supply side constraints and bottlenecks in the South East especially. The second is the growing influence of a mix of New Economic Geography (NEG) and place-based approaches, for example in the resurgence of interest in cities.

Behind this UK context, there are broader and important international policy and academic debates, which have seen significant recent developments. These are particularly over whether the focus of sub-national policy should be 'people-based' (or 'space-neutral') or 'place-based'. The case for 'space-neutral' policies was set out by the World Bank's World Development Report 2009 (World Bank, 2009), centred around a NEG inspired framework. Meanwhile, the case for 'place-based' policy was set out in the highly influential Barca Report (2009) and three important OECD reports (2009a; 2009b and 2012). These give us an opportunity to explore how far the government's *local growth* approach is really 'place-based' in practice. In other words, does the 'rhetoric' and 'policies' of *local growth* to be 'place-based', really match up with the 'base' that informs it?

This paper therefore addresses the question: what are the economics behind the move to *local growth* and Local Enterprise Partnerships (LEPs) and how far is policy 'place based' in practice? To do so, it is organised in three sections. The first outlines the shift

from Labour's new *regional policy* to the Coalition's *local growth* approach, of which the creation of LEPs is a central part. It shows how one outcome of this shift has been the rise in interest in the economic role of cities. The second introduces the international debates on 'space-neutral' and 'people-based' policy and explores how much impact these debates have had on UK sub-national policy in practice. The third highlights six key disconnects and limitations in the economics behind LEPs.

### **From new regional policy to local growth**

#### *New regional policy*

Over 1997-2010, the UK Labour government adopted a variation of neo-classical economics in its framework. Its overriding economic objective to achieving high levels of growth and employment in the British economy was extended to realising the potential of England's regions and its localities. This was made clear in its Public Service Agreement (PSA) (HMT et al, 2006) for regional economic policy and in the 'rhetoric' of the opening paragraph of the Sub National Review of 2007:

*"The Government's central economic objective is to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. To realise this objective it is essential that every nation, region, locality and neighbourhood of the UK performs to its full economic potential" (HMT, 2007, page 13)*

The building blocks of the policy were macroeconomic policy management to achieve sustained stability and microeconomic policy reform to (i) establish appropriately designed institutions operating primarily at the regional level, such as RDAs, to invest in regional and local growth; and (ii) address supply side failures in the six drivers of economic growth (employment, skills, enterprise, innovation, investment and competition) at appropriate levels of intervention.

An endogenous approach was claimed for 'new regional policy':

*"Britain does have the opportunity to achieve balanced growth, rising prosperity but also the opportunity to deliver higher growth and full employment not just in one region but in every region, and city of our country.*

*To achieve this requires a new approach to regional policy – an approach where central government backs regional and local enterprise and initiative by exploiting the indigenous strengths in each region and city. But the new regional policy must be bottom-up not top-down, with central government enabling powerful regional and local initiatives to work by providing the necessary flexibility." (Balls, 2000)*

However, in practice, despite the 'rhetoric' behind policy, it was largely pursued through RDAs that were in practice rather more accountable to Whitehall than they were to regions and localities, with top-down control and Whitehall-set targets. It was also

thematic, rather than place-based, focusing on the individual contribution of each of the drivers of economic growth in the context of English regions, which were administrative rather than economic constructs. Nevertheless, there were some advantages to having RDAs. For example, the RDAs were well placed to make choices, based on local and regional intelligence, about where to get the best economic return on interventions, and from a vantage point where they could view clusters and activities that cross local authority (and now LEP) borders. Post RDAs this has become more difficult.

### Local Growth – going back to the 1980s?

As noted above, beyond the overriding objective of macro-economic stability, there are four key themes of the government's local growth agenda. Firstly, there is the desire to realise the potential of every place, by that places are different and have different routes and potential to progress. A particular acknowledgement is given of the potential of English cities to "be the motors of our economic recovery" (HMG, 2010a). Secondly, the government wishes to "shift power to local communities and businesses" (HMG, 2010), on the basis that "every place is unique and has the potential to progress" and "are best placed themselves to understand the drivers and barriers to local growth and prosperity". Places are to be offered the opportunity to tailor their approach to their local circumstances (HMG, 2010a). However, not all places will grow at the same rate or become an 'economic powerhouse'. Very early in the Administration, an invitation was sent to local authorities and business leaders to submit proposals to establish LEPs to reflect the "natural economic geography of their areas" (HMG, 2010b). This emphasis was also reflected in the first round of 'City Deals', between the Government with each of the eight English Core Cities.<sup>3</sup> Here a strong emphasis was also placed on the importance of dynamic local leadership. Thirdly, an emphasis on *rebalancing the economy*, by reducing over-dependence on public sector employment in some parts of the country and a national over-reliance on financial services in the UK economy overall, through creating the conditions to enable private sector growth. This is underpinned by a UK infrastructure framework to focus investment in infrastructure to have a long-term impact on economic growth. Fourthly, the government aims to promote efficient markets, by introducing supply side reforms, such as to the planning system, to incentivise business and housing investment and growth.

In policy terms, the abolition of the RDAs and their effective replacement by LEPs was at the heart of this new approach. However, the precise role of LEPs was relatively

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<sup>3</sup> See DCLG Press Release on City Deals, 5th July 2012. Available at: <http://www.communities.gov.uk/news/newsroom/2173980>

undefined and it could be argued that many of the functions of the former RDAs (on industrial policy, inward investment attraction, business support and so on) were, initially at least, re-centralised (Hildreth and Bailey, 2012; Froud et al, 2011). Meanwhile, questions remain as to whether the new LEPs really match 'functional economic geographies' in towns and cities (a point noted, inter alia - by Heseltine (2012), the CBI (2012) and Bentley et al (2010)) and quite how they will be incentivised to cooperate.

Despite the rhetoric of a 'place-based' approach, in practice, the Coalition appears to have gone back to an earlier variation of the neo-classical framework. On the face of it, this takes us back into the world inhabited by the Thatcher government in the early 1980s, with its emphasis on reducing the state, cutting regulation and increasing competitiveness. The argument is that this creates space for private sector growth through self-correcting market adjustments in prices, wages and capital leading in turn to spatial adjustment in the movement of people and firms between places creating greater economic balance. The impact of this thinking can be seen in practice in Enterprise Zones and the NPPF (DCLG, 2011a).<sup>4</sup> Further, the problem of housing supply is seen primarily in terms of planning restraints impeding market efficiency. Fundamental questions about institutional weaknesses in the UK model of house building, which would be part of a 'place-based' approach, are not even posed.<sup>5</sup>

Nevertheless, there are similarities in the 'rhetoric' presenting *new regional policy* and *local growth*. For example, both claim to be about the realisation of local indigenous potential through 'bottom-up' approaches. However, in 'policy' terms there are major differences. The previous government's *new regional policy* was built on the thematic drivers of growth framework and used the English administrative regions as its principal building block. By comparison a thematic analysis is absent from the current government's *local growth* narrative and its focus is on the contribution of localities and communities to economic growth. It also places a stronger emphasis on the enabling role of the private sector to be facilitated by more efficient markets and the rolling back of the state. In addition, it significantly downgrades any emphasis on the role of effective intermediary institutions (RDAs), which was a central feature of *new regional policy*.

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<sup>4</sup> Although there is reference to 'sustainable development' in the draft framework (DCLG, 2011a, paragraphs 9-18), along with an attempt to apply the Bruntland definition, there is no legal definition used to actually underpin policy.

<sup>5</sup> The neo-classical perspective has also shaped the re-emergence of Enterprise Zones (EZs) as a flagship policy of *local growth*. This is despite the reality of past experience with EZs from the 1980s, which is at best ambiguous and at worst somewhat disappointing in terms of net effects and cost per job (see Papke, 1993).

Other 'policy' differences lie in the absence of a detailed industrial policy and the centralisation of many regional (RDA) functions to Whitehall.

However, it is in the underlying framework (or 'base') where the basis for these real differences lies. One factor has already been identified – the apparent shift back to an earlier variation of the neo-classical framework. But there may be another, the emergence of 'space neutral' approaches underpinned by developments in New Economic Geography (NEG), which is discussed in the next section. This has significance, not just in the context of *local growth*, but also in wider international debates about the appropriate nature of sub-national policy.

## **Broader Debates in 'Space-Neutral' and 'Place-Based' Policy**

### *'Space-Neutral' Approaches and the NEG*

As stated above, the second clue to the underpinning of *local growth* is the growing influence of NEG. On the face of it, there might appear to be a contradiction in the UK Government being influenced by both a neo-classical (space-neutral) and a NEG approach. Simply put, the basic neo-classical model operates in a world that is essentially economically 'flat', where convergence between regions was more likely over the long-term through self-correcting market adjustment. By contrast, NEG, whilst essentially neo-classical in its formation, adopts variations in basic assumptions that lead it to see the world as essentially 'spiky', explaining unevenness in economic activity between places through agglomeration economies that are largely related to city size. Spatially uneven development is predicted through localised increasing return effects, raising local productivity and making particular regions (cities) increasingly attractive to firms and workers.<sup>6</sup> Rather than predicting convergence, NEG models suggest that it might even counter-productive to pursue geographically balanced development (e.g. see Gardiner et al, forthcoming).

However, what is also interesting about the NEG framework is that, despite the clear recognition of the economic role of cities, it can be associated with a 'space-neutral' approach to policy making. This is most apparent in the World Development Report (World Bank, 2009), which advocates, within a NEG-inspired framework the promotion of agglomerations in development and the establishment of 'spatially-neutral' institutions (for example in education, health and social services) as first order solutions, supported

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<sup>6</sup> For an excellent recent summary of the NEG and other theoretical perspectives in spatial development see Gardiner, Martin and Tyler (forthcoming)



by infrastructure to connect weaker to stronger places across distance and only very sparingly, spatially-targeted interventions as second and third order solutions respectively. In highlighting the advantages arising from the agglomeration effects of large-cities, the World Bank report essentially argues that growth and development by its very nature will be unbalanced and that efforts to spread economic activities will be counter-productive, in undermining growth and prosperity (World Bank 2009). As such, the report proposes a 'spatially blind' strategy, with policies designed "without explicit consideration to space" (World Bank, 2009; 24). Such spatially-blind policies are in turn often seen as 'people based' in that mobility should be encouraged so that people can move to where they can be most productive (particularly cities). This enables people to live where they expect to be better off, and in so doing boosts incomes, productivity, knowledge and overall growth (World Bank, 2009; page 77).<sup>7</sup>

In a UK context, this World Bank report may appear to have had little direct influence. However, a NEG framework is deployed in the UK context to make the case that spatial disparities are indeed driven by 'people' and not 'place' characteristics.<sup>8</sup> Given that it is hard to change 'area effects', it is then argued that it is better to focus investment on 'people' rather than 'place'.<sup>9</sup> Thus the case is made to prioritise the growth of successful cities (located primarily in the South East), even if this results in more uneven development within England. In this context market barriers (such as planning restrictions) are highlighted. A case is presented for universal reforms, for example in the liberalisation of planning regimes with the anticipation that greatest impact will be spatially on house building, office development and growth in the already more successful London and GSE area (Overman and Gibbons, 2011). Nevertheless, localism is still supported under this approach, since although it may make little difference in practice to helping growth, it does facilitate and incentivise experimentation (Leunig and Swaffield, 2008).

These arguments are partially accepted within the government's evidence paper (BIS 2010), that was published alongside its White Paper *Local Growth* (HMG 2010). It points out that wide spatial imbalances between London and the South East and the rest of the country have been growing since the 1970s, reinforced by London's high productivity growth. Despite Labour's regional policy, "*the gap between leading and lagging regions has widened*" and that in any case "*there may be substantial limits to how geographically balanced an economy may become.*" (BIS 2010, page 26).

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<sup>7</sup> See Barca et al (2012) for an overview and assessment.

<sup>8</sup> "The role of the individual matters as much, if not more, than the role of place" (HMG, 2010; 9).

<sup>9</sup> An argument made by Gibbons et al (2010) and Gibbons and Overman (2011).

But if neo-classical ideas also remain important in government, how is this reconciled with NEG influences? The answer may lie in a perspective that sees England as having one significant 'spike' (London with the Greater South East (GSE)) with the rest of the country being relatively flat in comparison. In practice London has been the favoured region, driven by concerns over London and the GSE's world role in the Global Economy. The extent to which this is so was amply illustrated by the Prime Minister prioritising the financial services industry in the City of London over the interests of other trading sectors in the UK in his veto at a recent European Summit.

It is rather like moving from a nine (administrative) region model of England under Labour to a two region model under the Coalition. But if this is so, is there nothing that can be done for the rest of the country? The answer given lies in recognising that other cities might offer 'mini-spikes', whose potential might be realised by: *"....empowering and incentivising local government, firms and people across economic centres and natural geographies to promote growth and correct the market and government failures which are acting as barriers to economic development"* (BIS 2010, page 25).<sup>10</sup> Here, it is perhaps that the NEG has had an influence along with recent 'place-based' approaches.

This rise of interest in the economic case for cities has been sometime in coming. Back in 2001, when a key report on the foundations of *new regional policy* was published by the HM-Treasury (HMT and DTI, 2001), cities were almost absent from the economic analysis. However, by 2006, the third of the HM-Treasury 'Devolved Decision-Making' series was published, focussing on the economic role of cities (HMT et al, 2006). A review of sub-national regeneration policy (HMT et al, 2007) gave formal recognition to functional economies (and potentially city-regions) as appropriate contexts for sub-national policy. This process has evolved further under the Coalition.

The outcome is seen in 'Unlocking Growth in Cities' ('Cities') (HMG 2011), which offered to cities and their LEAs (particularly the Core Cities) the potential opportunity of more powers and incentives to *"take their economic destiny into their own hands"* and reach their full potential (HMG, 2011, foreword). Whilst the Core Cities grasped the opportunities made available to them and entered fully with commitment into the process of negotiation with Whitehall, it is important to identify the limitations of this approach at this point in time, which we turn to later.

If the NEG framework has had some influence in Whitehall, at least in helping to raise policy interest in cities, what has been the impact of recent developments in 'place-

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<sup>10</sup> While Local Growth itself highlights the agglomeration effects in driving growth in London (with benefits for growth elsewhere) (HMG, 2010; Para 1.15), it also notes that "many small towns and cities have grown faster than some large towns and cities" (HMG, 2010; para 1.16).

based' approaches? Given the emphasis in the 'rhetoric' in *local growth* about local places, it might be expected that the influence might be increasingly strong.

The Emergence of 'Place-Based' Approaches

Several recent major policy reports and papers have been produced advocating 'place-based' approaches (Barca, 2009; OECD, 2009a, b; Barca et al 2012). For example, the Barca Report has been highly influential in the redesign of European Cohesion Policy for the period 2014-20.<sup>11</sup> While it would be possible to exaggerate the differences between the NEG 'space-neutral' and 'place-based' approaches, there are nevertheless important differences in their underlying frameworks which are rehearsed in detail elsewhere (McCann and Rodríguez-Pose, 2011; Barca and McCann, 2010; Gill, 2010) and can be summarised as shown in Figure Two.

Figure Two – Contrast between 'space-blind' and 'place-based' policy approaches

	Space-blind (e.g. WDR 2009)	Place-based (e.g. Barca Report, OECD 2009a, b)
Purpose	Facilitate agglomerations, migration and specialization for development	Realize growth potential in all regions, focusing on urban system as a whole
Urban system	Homogenous (in relation to city size)	Heterogeneous (not city size dependent) Agglomerations are not all natural
Geographical and historical context	Regions and localities follow standard development path	Regions and localities follow multiple development paths varied by their economic, social, cultural, historical and institutional characteristics
Institutions	Invest in provision of space-blind 'universal' public services (e.g. education, social services)	Design appropriate institutional structures and governance in context.
Solutions	Standardised: 1 <sup>st</sup> order: spatially-blind institutions 2 <sup>nd</sup> order: infrastructure to connect across distance 3 <sup>rd</sup> order: sparingly spatially-targeted interventions	Design appropriate public good interventions and institutional frameworks in context of place
Knowledge	Predictable	Uncertain, embedded in locality and needs to be uncovered through bottom-up participatory processes to build consensus and trust
Role of central state	Design and provision of spatially-blind public services and appropriate infrastructure	Lacks 'sense of community', may support investments promoted by 'capital city elites'

These ideas draw on different thinking about 'place' and the new economics of institutions. Underlying this approach is a set of important conceptual ideas, which may be summarised.

<sup>11</sup> See for example European Commission (2011) on the proposals for the new Cohesion Policy for 2014-20. Barca (2009) effectively argued for a stronger linkage between accountability and autonomy in EU regional policy. He criticised existing EU Cohesion Policy on a number of levels, but in particular argued that EU Cohesion Policy was unable to foster the institutional reforms needed to unlock strong regional development. Ultimately Barca called for a greater public accountability of national authorities, with binding agreements and possible sanctions on issues such as data provision, the setting of clear policy objectives, and greater transparency in conducting policy, all in return for more freedom to tailor and experiment in policy design.

The objective of 'place-based' policy is to promote growth in all regions, based on the principle that it is the performance of the urban system as a whole, rather than that of just relatively successful cities that is significant (Barca, 2009; Barca, McCann and Rodríguez-Pose et al 2012). For example, the OECD point out those regions with average GDP per capita below 75% of national average accounted for 43% of growth across OECD 1995-2007 (OECD, 2012). In a globalised world space and place is seen to be more important (McCann, 2008). Unlike in a NEG model, which sees the urban system as homogeneous, the place-based approach presents it as heterogeneous, shaped by the distinctive geographical, historical, cultural, social and institutional settings of different places. The capacity of territories to root their economic activity into the local institutional fabric will be at the heart of their economic success, since the generation, acquisition and exchange of knowledge and the life blood of all firms is mediated and reflected in geography. However, knowledge is uncertain and is embedded in localities and needs to be uncovered through participatory and bottom-up processes to build consensus and trust (Barca et al, 2012)

However, the tendency of the 'state' is to lack both an understanding and knowledge of local places (lacks 'sense of community' (e.g. Barca, McCann and Rodríguez-Pose, 2012), with a consequent weakness in its capacity to adapt its approach towards local places and mediate local consensus and trust between local actors as well as mobilise local resources effectively. Further, it is also prone to the influence of 'capital city' elites in policy making, favouring infrastructure, innovation and sectoral investment for the capital rather than other places (Barca, McCann and Rodríguez-Pose, 2012). This has the important implication that agglomerations have both natural and unnatural (i.e. policy and resource driven) characteristics.

Beyond the capital city at local levels, 'under-development' traps may occur that limit and inhibit the growth potential of regions or perpetuate social exclusion. This may relate to a failure of local elites to act or because of institutional weaknesses (Barca, 2009). The generation of ideas and appropriate solutions should be generated collaboratively endogenously (by local stakeholders) and exogenously (by external actors) leading to explicit spatial targeting of places with appropriate bundles of public goods within a multi-governance approach.

Overall, place-based approaches have two essential underpinnings (Barca et al, 2012). Firstly, they see geographical context as key, and that a supposed 'space neutral' policy will always have spatial effects which may undermine policy objectives unless accounted for (ibid). Secondly, knowledge is seen as critical for effective policy development. In reality, such knowledge is not readily available, and as a result policy should aim to

stimulate new knowledge and ideas through interactions between local groups and external elites (ibid). On this knowledge attribute, the smart specialisation approach has been closely linked with place-based approaches to regional development policy, at least in how it has been developed in the European context (European Commission, 2011). In particular, in terms of regional policy it has been used to emphasise the need to exploit related variety, build regional embeddedness and enable strategic diversification. In so doing it stresses the need for regional actors (government, firms, universities, research institutions) to collaborate, recognising the current starting point for the region in terms of skills, technologies and institutional governance and then to build on these capabilities rather than trying to start 'from scratch' (Wolfe, 2011). This place-based smart specialisation approach therefore has parallels with Rodrik's (2004) perspective of industrial policy as a *process* of discovery requiring strategic collaboration between the private sector and state in unlocking growth opportunities, but set within a framework of multi-level governance so as to enable a process of local collaboration and discovery while enabling external challenge to local elites engaging in rent-seeking behaviour.

It is not entirely clear how far this 'place-based' framework has yet influenced thinking in the UK. The absence of any serious discussion of the new international literature in a recent UK review of people and place-based approaches would suggest the influence so far has been surprisingly limited (Crowley et al, 2012). However, as already indicated some of the underlying concepts are reflected in the 'rhetoric' of *local growth*, particularly in the emphasis on the uniqueness of different places and on the need for local solutions. This can also be found in the concept of 'City Deals', where the Core Cities, in phase one, have been encouraged to negotiate with Whitehall their own package of solutions for their sub-region or city-region, with certain powers passed to cities in return for setting targets and addressing governance issues.

However, as we have already explained, there can be a disconnect between the 'rhetoric', 'policy' and 'base'. The question is what disconnects are there in relation to *local growth* and what limitations do these place on the economics behind LEPs in practice? It is to this that the paper turns next.

### **Disconnects and Limitations in the economics behind 'Localism'**

In practice a number of disconnects and limitations can be identified in the government's approach. Firstly, the framework underpinning *local growth* can be viewed as a two region model: London and the rest of England. Within the proposed framework London and its city region (GSE) retains its highly privileged position, as the 'global city' that is deemed to be absolutely essential, through its financial services industry, to UK competitiveness in the world economy. It is clear that despite the first phase of City

Deals on offer, the London model of devolution is not on offer to cities or towns elsewhere in England, so far at least. Building High-Speed 2 might be seen as a way of linking Birmingham more closely to the GSE, rather than the other way round. In addition, major infrastructure investment projects are focussed on the London, such as the Olympic Games, Cross Rail and the even the private sector led London Gateway, to restore London's pre-eminence as a port gateway to the rest of the UK. Present debates around airport capacity are almost entirely centred on London and the South East. A 'place-based' approach warns of the potential of national policy to prioritise the capital city and focus insufficiently on the economic potential of the rest of the country. The removal of RDAs has effectively removed a tier of governance that was – in some cases at least - engaged in attempts to exploit related variety, build regional embeddedness and enable strategic diversification (see Bailey et al, 2010, on the West Midlands for example). In essence the policy 'base' here is 'space-neutral', emphasising the importance of London and the GSE.

Secondly, there is a tension in the approach towards cities outside London, reflecting the competing 'base' approaches. Indeed, it is not entirely clear, even after the announcement of 'City Deals', what the aim of policy is towards cities outside of London. Are they seen as centres for a holistic vision of investing in developing the agglomeration, innovation and enterprise capacity of cities and their functional economies (a 'place-based' approach)? Or are they being used as a context to effect further deregulation (e.g. planning), liberalisation and incentives (Enterprise Zones) and competitiveness (remove localised bottlenecks in transport, housing and broadband) to 'free up the private sector' with the hopeful expectation of fostering further economic activity (a space-neutral approach)? *Cities* (HMG, 2011) raised hopes of significant decentralisation to the English Core Cities through 'City Deals' along with significant finance raising powers, but how far this will actually go is still far from clear. In particular, will the Treasury or other departments allow this to happen as measures in the complex deals become implemented?

Thirdly, despite the rhetoric of localism (*'we want powerful innovative cities that are able to shape their economic destinies, boost regions and get the national economy growing'*) (HMG, 2011, page iii), the tone of 'Cities' remains conditional and dependent on cities offering something in return: i.e. 'we will give you additional powers if you prove yourself'.<sup>12</sup> In practice, Whitehall is uncomfortable with devolution. England remains a highly centralised country. Despite the rhetoric of devolution, as indicated above, many

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<sup>12</sup> See HMG (2011, page 2): "Where cities want to take on significant new powers and funding, they will need to demonstrate strong, visible and accountable leadership and effective decision-making structures".

RDA functions have been re-centralised and the financially limited 'Regional Growth Fund' is being distributed in a top-down way from London. 'Cities' offers comparisons between English and continental cities. All the latter come from Western European countries (Germany, France, Italy and Spain) that have strong 'representative localism' models with devolved powers far beyond what is currently on offer to the Core Cities. The 'conditional localism' tone of 'Cities' is not encouraging. It gives the impression that the Core Cities somehow need to 'get their act together'. In reality, cities like Birmingham, Leeds and Manchester showed how to lead by example in laying the foundations for the urban renaissance of the late 1990s and early 2000s, and more recently by responding to recession. It is often Whitehall that has been slow to respond. So while city deals suggest a place-based approach, they do not match international comparisons.

Fourthly, there is the danger of securing limited outcomes in practice. There was a risk that negotiations would evolve over individual elements of a package, leading to piecemeal change rather than a comprehensive rearrangement in the balance of resources and responsibilities between Whitehall and the cities. Some of this danger has actually emerged in the detail of the deals. It is important to recognise that the European cities that are doing much better than our cities (e.g. Germany, France, Sweden and Finland) have considerably much more control over their destinies than our cities do. As noted above, this limited approach will be reinforced by tensions between Whitehall departments over how far and to devolve. Not all departments were as committed to decentralisation towards cities as others. A different more 'place-based' approach could have been taken to city deals. This would have involved setting out strategic objectives for a programme together with a set of devolved and decentralised measures, resources and incentives from Whitehall to enable these objectives to have been achieved. It would then have been for the cities to respond with their own distinctive implementation plans. Such an approach would have been much more in line with a European cities or 'multi-governance' model.

In practice, while the City Deals can be seen as useful first steps, the deal on 'offer' varies considerably across the first wave of English cities and there remains a stark contrast with the recentralising element of government policy. Genuinely enhancing the power and resources of local government and LEPs (which have different geographies and anyway raise governance issues which are noted below) would require more localised control over currently centralised funds such as the Regional Growth Fund, training programmes and the Work Programme (a point which the Heseltine Review (Heseltine, 2012) in effect acknowledges). This lack of local power is compounded by the fact that many LEPs also have limited resources, especially those unconnected to a 'core

city' with a 'City Deal'. This is particularly the case given that the centrally-distributed Regional Growth Fund to which LEPs bid has a substantially smaller pot of money available to support regional growth than that which previously went via the RDAs. While the Local Government Resource Review (DCLG, 2011b) did indicate that local authorities will be able to keep any growth in business rates, in the hope that this will create a stronger incentive effect to promote growth, many commentators feel that LEPs need greater finance raising ability (such as bond issuing powers) so as to get things done locally (see APPG, 2012; Bentley et al, 2010).

Fifthly, part of the rationale for LEPs is that local (or city) economies do not stop at local authority boundaries, requiring collaboration across wider spatial areas. Evidence from Europe is quoted in 'Cities' that: *"where the level of decision-making is a good fit with a city's economic footprint this is associated with better economic performance"* (BIS 2010, page 16). However, this logic has not been followed through in the bottom-up creation of LEPs. Some like Manchester make good economic sense. Others like Birmingham are considerably well under-bounded. Overall, many of the LEP areas are far too small for effective policy making. The NPPF does attempt to rectify this to some extent by including a 'duty to cooperate' on planning issues that cross boundaries, but contains little or no guidance on what the duty means in practice nor clarifies what effective sanctions could be applied if local authorities or the myriad of other organisations involved fail in this duty, and as such can be seen as 'ineffective' (see House of Commons, 2011) with a need for LEPs to be 'supported and incentivised' to collaborate (APPG, 2012; page 16). A possibility is to link enhanced City Deal funding with better LEP alignment (whether by merger or cooperation). At some point an intermediate scale will have to be back on the agenda to join up the work of the LEPs, some of which look fragmented. Here the lessons from RDAs, both positive and negative, will need to be remembered. This also suggests the need for flexibility in governance arrangements across LEPs if place-based approaches are to be developed further.<sup>13</sup>

Sixthly, there remains the question of what happens to the LEPs that are not connected with a Core City (which may benefit by gaining new powers and revenue raising potential)? The 'City Relationships' study for the former Northern Way (Work Foundation, SURF and Centre for Cities (2010)) showed a complexity of economic linkages between towns and cities across Northern city regions. Many of the old industrial and port cities

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<sup>13</sup> Several LEPs have been beset by local political problems, with diverse local constituencies and memberships making decisions difficult. Coventry and Warwickshire LEP, for example, needed a new chair after disagreement over whether the LEP or local authorities would take control of transport, while at the time of writing Warwickshire had withdrawn from a proposed City deal bid given concerns over the borrowing required to fund new developments.



and towns like Burnley, Hull and Grimsby are relatively isolated in their commuting patterns and in their business networks. Their natural economies are too small, even within their designated LEPs and the consequences of their histories too great, to achieve much progress at such local levels. Indeed, expectations must be of continuing growing divides, even between places in the North and Midlands (see also Crowley et al, 2012). It is not clear that the second round of City Deals would address this, because the underlying challenge is that the LEP areas are too small to be effective.

Points 5 and 6 together represent perhaps the biggest challenge towards the new framework. A major criticism of the RDAs was that that they were effectively imposed in a top-down and arbitrary way. As a result they were seen as bearing little relationship with functional economic geographies, and were not accountable to localities. RDAs had the 'wrong geography' it was argued. In contrast, the creation of LEPs has been very much a bottom-up driven process, and while potentially helpful in terms of closeness to people and accountability, there is no guarantee that the configuration of LEPs that has emerged has the 'right geography' either. In fact, the new configuration of new LEPs may have just as severe problems over scale and boundaries as the old RDAs, albeit in a different form.<sup>14</sup> A particular challenge now arising is how the 'duty to cooperate' is to be made real. When interactions take place over different scales, how are stronger places going to be incentivised to cooperate with weaker places? That has yet to be made clear in government policy. Yet this cross-border collaboration is essential if the positive elements of RDA experience are not to be lost completely and a place-based smart-specialisation approach can be developed in the context of multi-level governance.

It is difficult to see how this shift to a policy of 'centralised localism' will actually help, for example, clusters in mature industrial regions like the West Midlands compete in the high-skill and high-technology niches that increasingly they occupy (Bentley et al, 2010). Indeed, it is in the areas of cluster and innovation policy that there may be particular challenges. Part of the problem is that what remains of industrial policy will be based in London, where civil servants are removed from events on the ground and generally lack the capacity to develop appropriate industrial policies for the reconstruction of the manufacturing base (Froud et al, 2011). The key point here is that RDAs were often better positioned to make judgements about how best to offer support and to which clusters (and/or technologies) as they had a superior information base than central government.

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<sup>14</sup> See Townsend (2012): "there is a much greater variety in the integrity and usefulness of different LEPs than among the regions that preceded them".

In a sense the opposite may also hold true, in that excessive decentralisation may see an 'all hands in the pork barrel' approach, with a fragmentation of RDAs into much smaller LEPS leading to limited public resources effectively being wasted on a myriad of micro-scale and uncoordinated projects. As Swinney et al (2010) note, only a small number of cities will actually be able to develop specialist clusters in sectors identified as 'high-growth' industries, and they identified a serious "reality gap" in policy. The danger is that many such projects are likely to fail as they will not actually be building on natural historical bases with genuine skill sets that can be re-orientated towards new growth or 'phoenix' clusters (ibid) in a smart specialisation sense.

An important lesson is that there remains a key role the coordination of LEP economic and cluster strategies, most obviously via some sort of intermediate tier infrastructure. This relates to Lovering's (2001) much earlier point regarding the relevant scale of governance. The relevant economic scale for the automotive cluster for instance covers at least five English regions (the East Midlands, North West, South East, South West and the West Midlands). The need for joint LEP working can also be evidenced in the regional data and intelligence legacy of the RDAs. Whilst this is being retained in places such as Birmingham and Manchester after the abolition of RDAs, it is not clear whether other parts of their regions will have access to such data and intelligence. The key point is that if smart specialisation is an important element of place-based approaches, then questions remain as to whether LEPS have the powers, resources and governance arrangements necessary to deliver such an approach. This is especially pertinent if, as Barca et al (2012) suggest, 'place-based' development strategies require mechanisms which build on local capabilities and promote innovative ideas through the interaction of local and general knowledge and of endogenous and exogenous actors.

## **Conclusions**

This paper has explained why it is important to understand the economics behind LEPS and *local growth*. As the picture becomes clearer it becomes obvious that there is a mismatch between the rhetoric of *local growth* and its limitations in practice, so far at least. *Local growth* (HMG 2010) sets out ambitions to achieve greater spatial and industrial balance across England (and by implication the UK). In practice, however, there are competing economic ideas in circulation within government which have influenced policy in different ways. A 'space-neutral' neo-classical approach in particular has influenced the proposed approach to planning in the NPPF, while a mix of NEG and 'place-based' approaches can be seen as having an impact in terms of documents such as *Cities* with its proposals for decentralisation to the 'right' level. Quite how far the

latter will progress is a key question at the time of writing, especially in the form of City Deals.

This is critical as the claim by Nick Clegg the Deputy Prime Minister in 'Cities' to create "...powerful, innovative cities that are able to shape their economic destinies, boost entire regions and get the national economy going" (HMG 2011 preface) is not yet convincing in practice. What is presented as a framework to empower cities to promote growth actually looks in practice to be conditional, piecemeal and potentially limited, with powers and resources perhaps too limited for effective 'place-based' approaches. Indeed is it more fitting to a view of England where the spikes outside London and the GSE are more mini than real?

The different experiences of regions in England are the real challenge that we now face. However, at the moment the thinking *behind* policy is still incomplete and contradictory. On the one hand, the 'space-neutral' neo-classical perspective brings out the emphasis on supply side reform and the reduction of costs to enable space for private sector growth. But this does little to address the qualitative improvement in local economies in the regions outside the GSE that we argue is needed. On the other, there is the beginning of a 'place based' approach recognising that the regional cities and their hinterlands might offer potential as important 'places' or sites for endogenous growth. However, the resulting bottom-up and at times fragmented configuration of LEPs can be criticised - as RDAs were - as having inappropriate boundaries and scales. Moreover, quite how the 'duty to cooperate' is to be enforced is far from clear: just how will stronger places be incentive to cooperate with weaker places? How far the government goes in addressing these issues of powers, resources and governance arrangements will to a large extent determine to what extent the policy 'base' is actually place-based in practice.

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