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ARE BIG CITIES REALLY THE MOTOR OF UK REGIONAL ECONOMIC GROWTH?

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Abstract

In the UK, the increasingly dominant assumption is that the big cities are the motor of regional economic growth. This city-centric view stands in marked contrast to the pre-2000 assumption that Britain's largest cities were actually the main focus of declining employment and population. Drawing on a range of theoretical ideas and evidence, this article questions the view that the big cities are the key drivers of UK regional growth. It recognises that there have been important changes in trends, notably in London, but argues that the geography of recent economic trends in the UK is largely one of regional divergence. There is scant evidence that the big provincial cities perform better than other places – in fact rather the opposite. The relationship between the big cities and their hinterlands is one of interdependence. The article also argues that the performance of UK cities is deeply intertwined with the structure of UK economic growth.

Key words

Agglomeration Cities Employment Growth Productivity Regions

JEL codes
O2, R1, R3, R5

Introduction

This article aims to question the increasingly dominant assumption that big cities are the motor of UK regional economic growth. It argues instead that the role of UK cities in regional growth is more complex and variegated, with interactions between cities, their immediate hinterlands and wider regions that work in both directions. The article also argues that the performance of UK cities is deeply intertwined with the structure of national economic growth and that urban trends in the UK over the last twenty years are to a significant extent a reflection of regional divergence between north and south and of a model of growth based on consumer spending and debt that looks hard to sustain.

In challenging the view that big cities are the motor of UK regional growth, the article draws on a range of theoretical ideas and empirical evidence rather than on the results of a single new research study. The focus is mainly on Britain's big cities, particularly the second-tier cities occupying the rung below London in the national settlement hierarchy. This choice is made on two grounds. First, these cities have been the main focus of recent policy attention in the UK. Second, big cities have been emphasised in contemporary theory on urban and regional growth and productivity.

The first part of the paper, below, summarises the claims that are now often made on behalf of UK cities and explains how they are shaping the public policy agenda. This is then compared with the pre-2000 view of UK cities, which in stark contrast characterised them as the principal location of job loss and population decline. This leads to a discussion of how much has really changed in UK urban trends. The article then moves on to consider the sorts of economic activities cities are 'good for' and, conversely, the economic strengths of non-city areas. This in turn leads to consideration of the interdependencies between cities and their hinterlands. Finally, the article looks to the future and considers the composition of economic growth required to sustain long-term expansion in the UK economy and how this might influence the balance between cities and other places.

A definitional point does however need clarifying first. This concerns exactly what is meant by 'cities'. In recent times in the UK the term has been used loosely to describe more or less any built-up area, including some relatively small 'cities'. The analyses by the Centre for Cities (2015a, 2015b), which cover 64 'primary urban areas' across the UK, are prominent examples (and are based on contiguous built-up areas) but the same classification has also been used in other reports on the performance of UK cities (for example Parkinson et al 2006, Martin et al 2014). Many of these primary urban areas are not really 'cities' at all, at least not in the sense that the term would be generally understood. Instead they are modest-sized towns (e.g. Blackpool, Telford, Hastings, Grimsby, Chatham) and sometimes they also include within their boundaries a substantial hinterland of even smaller places (e.g. Barnsley, Wakefield and Mansfield, which each include numerous former mining villages). Relatively little of the UK – principally only the most rural areas – falls outside a 'city' on this overly-generous definition.

In raising doubts about the role of cities as motors of UK regional growth, this article essentially questions only the role of the very largest cities – that is, London plus the dozen or so biggest cities in the rest of the country. The article nevertheless recognises that the built-up areas of these big cities do in some cases spill out well beyond the boundaries of the local authority districts at their core: Manchester, for example, lies at the core of a conurbation which includes a number of substantial surrounding towns such as Bolton, Bury, Rochdale, Oldham and Stockport. Some of the ideas and evidence presented here relate to just the core city whereas others refer the wider built-up urban area.

The new conventional wisdom

The UK national government and civil servants for a long time have been characterised as somewhat aspatial in their thinking (Marvin and May 2003). Although this no doubt remains the case in most sector-based departments, that cities have come over the last decade to occupy a central role in so much contemporary thinking on UK regional economic growth is beyond doubt. The runaway growth of London as a centre of population and jobs is widely accepted as one of the defining features of twenty-first century Britain. Away from London, the Core Cities group of local authorities – comprising (in England) Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield , and recently augmented by Glasgow (in Scotland) and Cardiff (in Wales) – have sought to position their areas as drivers of regional growth (Core Cities 2013). To deliver their vision, the Core Cities group have called for the extensive devolution of powers and finance from central government to their areas. "Cities drive growth and the way we run them shapes the economy" claim the Core Cities (2013, p.5).

The Core Cities' message has found support across the political spectrum. The Heseltine Report, commissioned by the Coalition Government (Heseltine 2012), backed the devolution of powers and funding to the big cities. The Adonis Review for the Labour Opposition (Adonis 2014) conveyed a remarkably similar message. The foundations for these confident 'pro-city' statements were laid by earlier reports that raised the profile of cities in central government thinking, in particular the *State of the English Cities* (Parkinson et al 2006) and the Eddington Report *Transport's role in sustaining the UK's productivity and competitiveness* (Eddington 2006). The *State of the English Cities* report identified the reversal of decades of decline in England's conurbations, the importance of cities in connecting to the global economy, and the concentration of new fast-growing knowledge-intensive industries in cities. The Eddington Report recommended prioritising transport investments that relieve congestion in cities and better connect cities to their hinterlands in order to widen and deepen city-regional labour markets (Eddington 2006).

A number of academics (for example Fujita et al 1999, Graham 2007, Combes et al 2011) have provided an intellectual underpinning for the Core Cities' argument and have won remarkable endorsement from HM Treasury on the importance of cities for national economic growth. Specifically, they have stressed ideas prevalent in the 'New Economic Geography' (NEG) and 'New Urban Economics' (NUE) about 'agglomeration economies' that benefit larger cities and in theory give the businesses located there a competitive advantage over businesses elsewhere.

'Old' economic geography emphasised the importance of transport costs in influencing the location of economic activity, evidenced by the location of industry close to raw materials in early industrial times. Since then, improved global and national transport connections have allowed firms, firstly, to concentrate activity in fewer, larger operations in order to exploit greater economies of scale deriving from establishment size and, secondly, to have a greater choice of locations and so take advantage of agglomeration advantages in cities (Krugman 1991). A critical insight of Krugman's 1991 NEG analysis is that improved transport connectivity raises competition between places, which can in turn lead to a *reduction* in economic activity in less competitive cities.

The NUE emphasise the increasing importance of formal and informal interactions and knowledge spillovers that can take place in large and diverse urban agglomerations between economic actors and lead to greater competition and innovation. Agglomeration economies in cities are also thought to include: the concentration of knowledge-driven sectors (Porter 1990, Florida 2002); a diversity of businesses that foster knowledge spillovers between industries (Jacobs 1960); a density of information on market conditions and opportunities (Glaeser 2011); a depth and range of demand and supply which raise competition and efficiency (Combes and Overman 2004); deep labour markets reducing risk and improving labour market matching (Overman et al 2010); and critical mass to support specialist consumer demand (Glaeser 2001, Gottlieb and Glaeser 2006).

More traditionally, Marshall (1890) identified that local industrial specialisation can raise productivity through easier access to a large and skilled workforce and to specialist suppliers and customers, which serve to reduce search and transactions costs. Crucially, although Marshallian industrial localisation may occur in cities, it can also occur in smaller towns and relatively un-urbanised districts. Another distinguishing feature of the agglomeration benefits of the NEG and NEU from traditional Marshallian localisation benefits, is that the NEG and NEU stress the role of sectoral *diversity* (which is in turn linked to city size), whereas Marshall stressed the importance of sectoral *specialisation*.

The dominance of these ideas in the UK is already resulting in tangible policy initiatives. London's Elected Mayor and Assembly have for some while had control over transport, housing and economic development budgets that elsewhere in England remain the preserve of the Westminster government. However, similar devolved powers are now being extended on a piecemeal basis through City Deals, notably to Manchester (Greater Manchester Combined Authority 2014). There is pressure for the big cities and their surrounding local authorities to cluster together into 'city regions' and to pool powers into 'combined authorities'. The distribution of financial resources to Local Enterprise Partnerships (LEPs) in England, through the Growth Deals announced in 2014 (Department for Communities and Local Government 2014), has also allocated more on a per capita basis to the big city LEPs than most other areas.

Meanwhile, the Westminster government is prioritising investment in high-speed rail links between the big cities – initially HS2 between London and Birmingham and then on to Manchester and Leeds, and a possible HS3 linking the big cities of northern England (HS2 Ltd 2015). The theory is that by shortening journey times, the big cities outside London will be able to benefit from greater agglomeration economies arising from enhanced proximity and thereby begin to match London's success. Most recently, the Chancellor of the Exchequer has spoken about developing the 'Northern Powerhouse', with Manchester at its core, as a driver for the economic revival of northern England (Osborne 2015).

The new conventional wisdom may be summarised as being that the big cities in the UK offer the best prospects for economic growth and for leading the revival of their surrounding regions.

Shaky theoretical foundations of the new conventional wisdom

International evidence on the effects of agglomeration on economic performance is mixed, not least because of difficulties with measurement and definitions (in particular spatial scale). Another problem arises in attributing causality between, on the one hand, proximity between firms (i.e. agglomeration) and, on the other hand, successful firms simply co-locating in the same place for other reasons (e.g. unexciting 'old' economic geography factors such as access to the transport system or availability of suitable premises). In a study across European countries, Gardiner et al (2011) found only a weak link between national economic growth and the degree to which economic activity is spatially concentrated. Duranton and Overman (2005) found that only just over half (52%) of manufacturing firms in the UK were located in specialised industry clusters. Krugman, one of the key architects of the NEG, later concluded that returns to scale (internal and external) have peaked because of congestion and high costs in cities and improvements in ICT and human capital facilitate networking and contracting to take place over longer distances (Krugman 2009). The NUE in particular (less so the NEG) tends to analyse cities as single entities somewhat divorced from their position in the national system of settlements and their wider regional setting (Dijkstra 2013).

In applying the NEG or NUE to Britain, two key features of Britain's settlement system need to be born in mind. First, it is dominated by London's size and world city role. Second, Britain's second-tier cities are relatively close together in northern England's former industrial heartland (particularly Leeds, Liverpool, Manchester and Sheffield) which plausibly limits the extent to which any one can grow on a large scale. The UK's HS3 proposals imply that high-speed rail connections can create an integrated labour market to rival London and the southeast, yet the passenger capacity of high-speed trains relative to the number of jobs and the quality of onward connections from city centres make this seem implausible.

The relevance of this new conventional wisdom to Britain's urban system is open to question. NEG and NUE draw heavily on empirical evidence from the USA, where the largest cities do indeed display the greatest productivity (Rosenthal and Strange 2004, Rozenfeld et al 2011), growth (Glaeser et al 1992) and innovation (Carlino et al 2007). However, this large city effect is not replicated across developed nations. Analysis by the OECD showed that medium-sized cities (defined as around one million inhabitants) across the OECD have greater productivity than the very largest cities (OECD 2006). Analysis for the UK indicates that city size is only weakly associated with both productivity (OECD 2006) and growth (Martin et al 2014), and both these UK studies reveal that many small cities (in the range 200-500k residents) display the strongest performance on both productivity and growth, often based on specialised high-tech sectors more consistent with traditional Marshallian industrial localisation benefits that do not require large cities. Synthesising international evidence, Dijkstra et al (2013) conclude that *"amongst rich countries the large city effect is primarily confined to the US, Japan and Korea, and to a smaller extent to Canada and Australia, along with a few individual outliers such as London and Paris"* (p.337).

The new conventional wisdom to Britain is that the British debate has been unduly shaped by the meteoric growth of its largest city London and the notion that this success can be replicated elsewhere. Yet, as a world city, the UK's capital is strongly influenced by the global economy, allowing it to frequently buck national UK trends (Sassen 2002). London is demographically distinctive from the rest of the UK and receives the highest per capital public spending of all English regions (Martin et al 2015). Finally, London is an outlier on recent growth compared to other large European cities which have tended to stagnate or decline since the new millennium (Dijkstra et al 2013).

Shaky empirical foundations of the new conventional wisdom: the pre-2000 view of UK cities

For anyone who has studied longer-term economic trends, this present-day enthusiasm for cities as drivers of UK regional economic growth stands in sharp contrast to the pre-2000 view, backed strongly by data, that Britain's big cities were the main centres of job loss and population decline. Conversely, smaller towns and rural areas were seen as the main locations of growth, not just in cities' immediate hinterland but also much further afield, well beyond the influence of urban commuting networks. Cities were viewed as the problem, not the solution, and attention was often focussed on the scale and severity of 'inner city' problems (see for example Lawless 1981). These problems of urban decline were not uniquely British but seemed to be shared by a number of other advanced western economies, not least the United States.

The scale of the urban decline is illustrated by London's population, which reached an all-time peak (in the Greater London area) of 8.6m just before the Second World War. Thereafter it fell steadily to a nadir of just 6.8m at the beginning of the 1990s (Inwood 1998*)*. Since the early 1990s London's population has risen again but is only just re-approaching its previous peak. In several other of the UK's biggest cities – Glasgow, Liverpool and Manchester for example – the population remains well below peak levels and only reverted to growth around the turn of the millennium after declining throughout most of the second half of the twentieth century.

Suburbanisation and wider commuting networks accounted for some of the population decline at the core of the big urban areas, but the urban areas as a whole were still major centres of job loss and the smaller places beyond the cities were where growth was mostly occurring. Much of this was attributable to what became known as the 'urban-rural shift' in manufacturing. The scale of this shift was immense. Between 1960 and 1981, manufacturing employment in London fell by 690,000, or 52 per cent, and in the six main conurbations elsewhere in the country (Birmingham, Glasgow, Manchester, Merseyside, Tyneside and West Yorkshire) manufacturing employment fell by 990,000, or 43 per cent. By contrast, manufacturing employment in small towns held up more or less unchanged and in rural areas there was growth of 24 per cent (Fothergill et al 1985). Loss of manufacturing jobs in urban areas had knock-on consequences for local service sector businesses and helped trigger migration to places beyond the cities where jobs were more readily available. By the end of the 1990s, the dominant discourse was still of the jobs gap in Britain's cities (Turok and Edge 1999).

The causes of the urban-rural shift in manufacturing eventually became firmly established. Physical relocation out of cities to other areas accounted for relatively little of the overall shift. Closures and redundancies were occurring fairly evenly in cities and elsewhere, but job growth was disproportionately concentrated in smaller towns and rural areas. This in turn owed a great deal to the greater availability of physical space for expansion, both on new and existing sites (Fothergill and Gudgin 1982, Fothergill et al 1985).

The resulting distribution of manufacturing jobs across Britain in the second decade of the twenty-first century is radically different to two generations ago (Fothergill and Gore 2013). There are far fewer manufacturing jobs in total, though the big cities retain the largest absolute concentrations. However, manufacturing now typically accounts for a higher percentage of total employment in many rural or semi-rural areas than in cities, with some of the very highest shares in places where particularly large plants are located. Birmingham district, with the largest single concentration of manufacturing jobs in the UK (40,000) and a reputation as a manufacturing heartland, actually has a share of jobs in manufacturing (8 per cent) that is marginally below the national average. In Leeds the proportion is also 8 per cent, in Newcastle 5 per cent and in Manchester just 4.5 per cent. By contrast, the proportion exceeds 20 per cent in several districts in Durham, Lancashire and Derbyshire.

Triggers of change

But at the very point in the 1990s that the decline of Britain's cities had become the conventional wisdom, and the inner city problem adopted as a more or less essential part of any government's agenda, something important *did* change in British urban trends.

The earliest and most radical change occurred in London when the long period of population decline came to an end and when, after the recession of 1989-92, employment in London started growing again. The turnaround in London's fortunes has been well documented (see Gardiner et al 2012), though it took a little while to become widely recognised. London's economy began to grow not just in line with the growth of the UK economy in the wake of recession, but its rate of growth began to outstrip the national average by some margin and this trend has continued more or less to the present time.

In the provincial big cities – all substantially smaller than London – the change in trend occurred a little later and the scale of the change was less pronounced. Indeed, in the following section we look more closely at just how much employment trends in these places really have changed. Nevertheless, by the early 2000s there began to be visible evidence of a turnaround. This was most evident in the physical renewal of the big provincial cities, and in particular of their city centres, which began to remove the legacy of deindustrialisation and present a new image. But the population of the big provincial cities also began to stabilise and in some cases to expand, albeit in the context of quickening population growth in the UK as a whole.

So what brought about this relatively abrupt – and historically significant – shift in trends in Britain's big cities? There were arguably four main factors at work.

The first and generally most overlooked factor is *arithmetic*. The decline in manufacturing employment in the cities, which had driven so many key trends in their economies prior to the 1990s, did not come to an end. Rather, the UK continued to shed manufacturing jobs and manufacturing accounted for an ever smaller share of total UK employment. Nor did the UK's big cities suddenly regain some lost locational advantage for manufacturing industry over other places. Arithmetic matters because a continuing decline of manufacturing employment, at the same percentage rate, accounts for fewer and fewer jobs as the stock of manufacturing jobs declines. Likewise, as manufacturing accounts for a smaller and smaller share of total employment, other sectors of the city economy begin to have a bigger influence on overall growth. Or to put this another way, the urban-rural shift in manufacturing may have continued but it no longer mattered so much to urban economies.

The second factor behind the change in trends is *regeneration money*. Collectively, this funding has been considerable and whilst individual schemes have inevitably varied in their scale, effectiveness and impact, their cumulative impact on urban economies was always likely to be considerable. The various initiatives since the 1980s have included Urban Development Corporations, City Challenge, Enterprise Zones, the Neighbourhood Renewal Fund, Derelict Land Grant, New Deal for Communities, the Working Neighbourhoods Fund and Single Regeneration Budget. Some of these were programmes specifically targeted at urban areas. Others were focused on disadvantaged communities across the whole country but in practice included large parts of the big cities. Further funding streams – notably Lottery grants – ended up allocated disproportionately to the big cities even though this was never the explicit intention. The physical renewal of Britain's big cities, which has often paved the way for economic renewal, owes much to these myriad streams of public funding. We are not arguing that this was money wasted (as others have, for example Leunig and Swaffield 2007), but that the revival of Britain's large cities was not driven solely, or even mainly, by the agglomeration benefits espoused by adherents to the NEG and NUE.

The third factor behind the change in trends in cities is the *composition of UK growth*. The long period of sustained economic growth between 1993 and 2008 had distinctive features. It was a period marked by strong growth in specific parts of the service sector, by rising consumer spending and by expanding public services. It was not a period marked by significant expansion in manufacturing output, which essentially stagnated. Just about all the drivers of national economic growth were ones that favoured the big cities. Growth in financial services favoured London and the other big cities, where so much of this sector clusters. Rising spending on retailing and leisure favoured city centres, where these activities are concentrated. Higher education expanded, often in the cities, and the expansion in the health service benefited big city teaching hospitals. The property world flourished, again mostly in city and town centres.

The fourth factor behind the change in trends is *globalisation*. This is more relevant to London than the UK's other big cities because only London is a truly global city with a role extending far beyond national boundaries. The globalisation of financial services, with London as one of just a handful of international hubs, has proved to be of immense value to not just to its banks and financial institutions but also to a wide range of other London-based business, such as legal services. London has also become a destination of choice for the world's super-rich, levering in immense spending on property and high-end consumer services. More generally, property investment has flowed into London from around the globe. High levels of international migration, above all into London and at both high and low levels in the labour market, have allowed London's economy to expand faster than otherwise would have been the case.

But how much really changed?

That London's economy has experienced an upturn since the 1990s, in comparison to the rest of the UK, is not disputed. The more contentious issue is whether this upturn has been shared by the UK's other big cities.

The most comprehensive evidence on employment in the big cities beyond London comes from Champion and Townsend (2011, 2013). They analysed aggregate employment trends in eight (and later nine) cities – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield, plus Glasgow in the later study – using statistics from the UK government's Annual Business Inquiry and its predecessors. Champion and Townsend's employment data, which they adjust onto a 'full-time equivalent' basis, provides evidence on the core cities and on their wider city regions over the period since 1984. A number of important conclusions emerge:

- In the wake of the early 1990s recession, employment in the core city regions recovered more *slowly* than in London.

- Over the subsequent long period of national economic growth up to 2007, the growth in the core cities and in their wider city regions was *slower* than the national average.

- Core city employment grew faster than in the rest of the city regions *only* in the 1998-2002 sub-period

- English metropolitan counties *lost more jobs* than the national average in the post-2007 recession

Taken as a whole, these empirical observations do not provide a ringing endorsement of job growth in the big provincial cities. They also confirm the difficulty of generalising from London's manifest upturn to employment trends in cities in the rest of the country.

There is however an important caveat. Champion and Townsend's most recent data, as yet unpublished but included in a conference presentation (Champion and Townsend 2015), points to much stronger growth in the core cities after 2012. The new data, taken from the Labour Force Survey, which includes the self-employed, shows that between 2012 and 2014 employment in the core cities expanded by 7.6 per cent on a full-time equivalent basis, compared to 1.4 per cent in the rest of the city region and 3.9 per cent across Great Britain as a whole. Here, perhaps, is evidence that the big cities are indeed leading UK regional growth.

Caution would however be advisable. This particular two-year period may be unusual. The post-2007 recession was severe, and equivalent data for 2010-12 shows a continuing relative decline in the core cities – a fall in employment of 1.4 per cent, compared to growth of 0.8 per cent nationally (Champion and Townsend 2015). The 2012-14 growth in the core cities may be a distinctive feature of recovery from recession rather than the beginning of a new longer-term trend, a point made by Champion (2015) in relation to the sustainability of the observed recovery of city populations. It is worth noting, nevertheless, that the somewhat extravagant claims made by the core cities about their role in regional growth long pre-date the new data.

The Champion and Townsend evidence, which on balance remains distinctly ambivalent about the role of the big cities outside London, is supported by two other recent studies. The first by Martin et al (2014), based on 63 principal urban areas across the UK, found a *negative* relationship between city size and output growth over the period 1981-2011. In other words, bigger cities grew more slowly. London was however an outlier, and there was also an important North-South divide, with cities in the South generally faring better than those in the North. A potential complication, however, is that the long period since 1981 straddles years both before and after the apparent resurgence of the UK's cities.

The other recent study is by the Centre for Cities (2015a), using the same principal urban areas but covering the years from 2004 to 2013. This found net job growth in southern cities of 12.4 per cent, but only 0.9 per cent in northern cities. Again, therefore, what seems to matter in the UK context is not a city's size but rather is regional location. Among the 63 principal urban areas, London had the second fastest growth in overall employment at 17.1 per cent – exceeded only by Milton Keynes, a 'new town' rather than a city – and the fastest rate of growth in private sector employment. The big provincial cities were much further behind.

The relatively weak performance of the northern provincial cities is consistent with the observation that GVA per head has risen more slowly in northern Britain than in southern Britain, with the gap (in 2006 prices) widening from around £2,500 per capita per year in 1971 to £7,000 in 2009 (Gardiner et al 2012).

The relative strengths of cities and other places

We may therefore begin to conclude that in the UK context the geography of contemporary economic growth is substantially more complex than just 'cities good, other places bad'. But in any case, simplifications of this kind gloss over differences that are likely to be important to specific sectors or businesses. There are unquestionably some sorts of economic activity that cities are better at than other places, but equally there are some things that non-city areas do better.

Similarly, different firms do better in different types of places, and the benefits of industry-clustering varies by industry and size of establishment (Duranton and Overman 2005). Firms dependent on high-skilled labour, for example, have more to gain from locating in a large city. Cost-sensitive firms and those requiring large inputs of land have more to gain from locating in smaller settlements. Therefore, the national economy benefits from the availability of what Dijkstra (2013) refers to as a 'portfolio of places' (including large cities, smaller cities, towns and rural areas) that can collectively meet the needs of a range of industries and a variety of sizes and types of firm.

In theory, a large city with a large population and an agglomeration of varied businesses offers a more competitive location for firms that value these characteristics, provided of course that the benefits are not outweighed by disbenefits such as congestion and high land and property prices. The list below is not necessarily exhaustive, but in the 21st century context UK cities are potentially good at:

- *Providing regional facilities*, because they are a central place (in terms of population if not necessarily physical location) from which services can be delivered to the surrounding region

- *Consumption-based activities*, such as retailing and leisure, where consumers often prefer the wider choice that a concentration of businesses in city centres can offer

- *'Networked' industries*, in which a close working relationship (formal and informal) with suppliers, consumers and competitors is central to the business model

- *Specialised services*, which require a large and accessible market

- *Some R&D and innovation*, where networks of professionals and contacts with city-based universities and corporate headquarters are important

- *Providing a big pool of labour*, which is necessary for some employers that are individually large, expect a high staff turnover or need to recruit specialist staff

- *Multiple big employers*, who would find the competition for labour in smaller places simply too great

- *Attracting migrants*, nationally and internationally, which helps overcome shortfalls in local labour supply, including at higher skill levels

- *Providing a 'locational 'brand'*, in establishing national and international recognition

- *Transport links*, in that big cities generally have the airports, railways and motorway connections that facilitate business links to places further afield

But city size and perhaps more importantly urban density, which generally rises with size, also have important disadvantages for some economic activities. Just as there are agglomeration economies that work in cities' favour, there are diseconomies of scale that add to costs and work in favour of smaller and less dense places. The list below, again not necessarily exhaustive, highlights the sorts of activities and attributes in which non-city areas generally have an advantage:

- *Space-intensive industries*, which have difficulty in being physically accommodated within major built-up areas

- *Logistics and distribution hubs*, which generally require not only substantial space but also direct access to the motorway network, which is generally easier to provide at junctions away from the big cities and away from congestion

- *Industries with 'negative externalities'* – or to put it another way, industries that make bad neighbours – which are best located away from concentrations of population

- *A captive and stable workforce*, which is easier for employers to maintain where there are fewer alternative sources of employment in the local labour market

- *Lower costs*, certainly compared to London's high labour costs but also in most cities for land and property

- *Environmental quality*, where this is important in attracting certain types of labour or in projecting a particular business image

- *Footloose 'lifestyle' businesses*, in which the entrepreneur's own locational preferences matter more than the imperatives of the business environment

- *Accommodating overspill growth*, which is hard to fit into the largest cities

- *Labour and consumers for nearby cities* – a place to live beyond the city but not disconnected from the city

Attempting to seek a simple answer to the role of cities in regional growth is therefore perhaps to misunderstand the complexity of economic processes. There are some things that cities do better, and in these activities they might be expected to play a leading role in economic growth, but there are other activities in which non-city areas are likely to have a competitive advantage. For the small firm reliant on the labour, markets and networks that a highly urban area can offer, there may be no alternative to a big city location. For the national distribution depot, a city location may be a hindrance rather than a help.

Cities in their regional context

What a comparison of the strengths and weaknesses of cities and non-cities also illustrates is the extent to which in practice these two locations are often interdependent. Furthermore, the causality in terms of economic growth does not necessarily run only from cities to their hinterlands. The prosperity and growth of the hinterland is itself likely to be a key driver of growth in the city.

The dependence, in part, of cities on the prosperity of their regions helps to explain why growth in the UK's northern cities has lagged behind growth in cities in the south. Many parts of northern Britain beyond the cities – the former coalfields, for example, and the textile towns of Lancashire and Yorkshire – have for years experienced major job loss. The industries that once underpinned the economies of these places have often disappeared entirely and though regeneration efforts have not been without positive effects (see for instance Beatty et al 2007 on the former coalfields) the scale of new job creation has invariably fallen short in filling the gap left by the old industries. The weakness of the economy across so many older industrial towns in northern England, central Scotland and south Wales will have exerted a downward drag on the growth of nearby cities.

At the most basic level, cities and their regions are linked by commuting networks. In 2011, 45 per cent of the jobs located in the core cities were held by commuters from outside the local authority (Houston 2015). This is to be expected, given that the city local authorities are integral parts of wider built-up areas and there is always likely to be large-scale commuting into city centres. But even taking the English metropolitan counties as a whole, 17 per cent of all jobs located there in 2011 were held by in-commuters. Commuting flows also work in the opposite direction, though less powerfully. In 2011, 28 per cent of employed residents in the core cities travelled to work out of the local authority, and 11 per cent of employed residents in the metropolitan counties as a whole worked elsewhere.

Commuting flows on this scale are a powerful mechanism for transmitting city growth to neighbouring areas. The wages and salaries earned in the city support consumer spending in neighbouring areas and, as a result, employment in private sector services in the regional hinterlands is higher than would otherwise have been the case. The commuters and their families also underpin substantial public sector employment, in schools for example, because so many public services are delivered in the places where people live rather than where they work.

Commuting flows also have the effect of transmitting labour market conditions from one place to another. Commuters into the city add to the local competition for jobs and raise employment among residents of the hinterland.

The interdependence between cities and their regions is however far more extensive than just the daily flow of commuters. Many jobs located in cities are directly supported by demand from businesses and consumers in their hinterlands. These include employment in city centre retailing, in leisure, in culture and entertainment, in business services geared to the local and regional market, in higher education and in healthcare. A larger and more prosperous regional hinterland results in greater employment in the city. In this respect, the scale and the prosperity of the hinterland act as key motors of city growth: the city follows what is happening elsewhere rather than drives growth itself.

Arguably, the economic dependence of UK cities on their regions has been increasing through time. Rising car ownership, in particular, has increased the accessibility of city centres to many households and improvements in public transport have generally had a similar effect. The consequence is that many consumer services that were once delivered locally, near to where people live, are now drawn into the city centres. Retailing probably provides the clearest example. Over the years, shoppers have gravitated towards the largest urban centres where they are offered not only greater choice but also access to specialist outlets that could not survive in a smaller marketplace. There are now numerous empty shops in the second, third and fourth tier urban centres around Britain. The pull of the big city centres, where retailing generally goes from strength to strength, is one of the reasons.

The flow of consumer spending into the big city centres illustrates the point that the relationship between the cities and their regions is not necessarily a benign one. Spending does not increase just because consumers have more choice about where to spend their money; rather, this is a zero-sum gain, with some places benefitting directly at the expense of others. In practice, it is the biggest cities that have gained at the expense of their neighbours, particularly in relation to retail investments.

Empirical evidence based on skills, economic output, employment, industrial composition and qualitative interviews with economic development professionals in northern English city-regions (focussed on Leeds, Liverpool, Manchester, Newcastle and Sheffield) led to the development of the following typology of relationships between small towns and their larger city neighbours (Jones et al 2011):

i) independent (strong local economy, weak links to city);
ii) isolated (weak local economy, weak links to city);
iii) dependent (weak local economy, strong links to city); and
iv) interdependent (strong local economy, strong links to city).

Looking to the future

There must also be a question-mark about whether the upturn in the relative performance of UK cities since the 1990s (albeit more modest than sometimes claimed) will be sustained into the future. As noted earlier, the particular composition of UK economic growth from 1993 to 2008 contributed to the upturn in the big cities, but growth during this era displayed distinctive features. Arguably, the drivers of growth in the years up to 2008 are not replicable in the future, or at least not in a sustainable way.

The post-2008 recession exposed the limitations of a model of UK growth based on consumer spending fuelled by rising debt and on ever higher public spending. These had been key contributors to city growth in financial services, retailing and leisure and in parts of the public sector. The recession brought a halt. The upturn in the UK economy from 2012 onwards was mainly brought about by a rekindling of the pre-2008 growth model, and in particular by a restoration of mortgage borrowing (and thereby rising household debt) to something nearer pre-recession levels. But by 2015 the UK had a record deficit on its foreign trade, one of the highest levels of household debt in the world, and a continuing and substantial government budget deficit. The post-2012 recovery looks a lot like the last gasp of an old and discredited model of growth.

What the UK economy really needs is *rebalancing*. There needs to be an increase in exports and in investment, and a regional rebalancing of growth rates. High and volatile property prices in booming cities reduce profit, increase risk and curtail lower value-added activities (Dijkstra 2013). Sharp regional differences in the cost of living inhibit internal migration as a mechanism to help regional rebalancing and improve labour market matching (Overman et al 2010). Poverty, unemployment and dereliction in weaker regions deter investment (Glaeser and Gottlieb 2009). Empirical evidence from across European cities suggests that countries with more balanced settlement systems have higher national economic output (Parkinson et al 2012).

Rising household spending needs to be rooted in rising incomes, not rising debt, and tax revenue rather than borrowing needs to underpin public expenditure. There is actually a consensus on the need for progress in these directions, even if delivery has so far been elusive. Arguably, there is now no alternative way forward if UK economic growth is to be sustained.

This has important implications for UK cities because if rebalancing does occur it will favour certain sectors and places. In particular, it is hard to envisage an increase in exports on the scale the UK needs without a major contribution from manufacturing. Finance, business and professional services, tourism and higher education are major potential export earners for the future, but with manufacturing still accounting for nearly half of all UK export earnings it is unavoidably an essential component of rebalancing.

The relevance to the geography of economic growth is that manufacturing has to a significant extent already deserted the UK's biggest cities, as noted earlier. If there were to be a revival of manufacturing output it would therefore not favour the cities to any substantial extent. Instead, there might be a distinctly more multi-centric pattern of UK economic growth than of late, with many of the manufacturing towns beyond the big cities playing a leading role in economic growth.

There are limits, of course, to just how far rebalancing and a revival of manufacturing would alter the relationship between UK cities and their regions. Even if there were to be an upturn in manufacturing output it would not necessarily generate huge numbers of jobs because productivity in manufacturing tends to rise faster than in other sectors of the economy. There would be no return to pre-1980s levels of manufacturing employment. Likewise, the cities would continue to exert a pull on retail spending and they would remain the preferred location for many office-based activities. So economic rebalancing would probably imply a shift in recent trends rather than a complete reversal. A return to the pre-1990 days of absolute reductions in population and employment in the UK's major cities seems unlikely.

The point is that just as there is interdependence between cities and their regions there is also interdependence between cities and the national economy. Cities are a large and important part of the UK but the national economy is more than just the arithmetic sum of its component parts. The national economy has a dynamic of its own, driven by factors such as interest rates, budget deficits, the exchange rate and the growth of the world economy. At any particular time these dynamics may, or may not, favour growth in the cities. In the UK context, the urgent requirement for a different model of national economic growth means that urban trends in the twenty years up to 2015 may offer a distinctly imperfect guide to the future.

Conclusions and policy implications

Let us return, therefore, to the central question: are big cities really the motor of UK regional economic growth? Our conclusion is that the UK's big cities cannot really claim a monopoly on this role. They have distinct strengths as a location for some businesses but not for others, who may indeed thrive better in places beyond the cities. The economic growth of cities does have beneficial impacts on neighbouring areas, but equally the prosperity of cities depends in part on the prosperity of their wider regions. And in addition to the beneficial impacts of cities on neighbouring areas, there can be powerful detrimental effects as well through the diversion of retailing and other services into the big cities at the expense of second and third tier regional centres.

Our conclusions are therefore far more nuanced than the claims made by, for example, the Core Cities group of local authorities. The UK's major cities, especially London, are no longer the epicentre of job loss they were for much of the second half of the twentieth century. But nor are they the only places that growth now occurs and, looking ahead, rebalancing the national economy may in some respects work against them.

Indeed, a key feature of the UK economy over many years is not so much the pre-eminence of cities as the widening gaps in productivity and growth between regions (Gardiner et al 2013, Robson 2015). Cities in the south generally fare better, on a range of economic indicators, than those in the north. The performance of the region, rather than the city, seems to offer a better way forward to understanding the UK's contemporary spatial economy.

None of these conclusions undermine the case for mechanisms of governance that integrate UK cities with their immediate hinterlands. Indeed, the strong economic links in both directions between cities and their surrounding areas offers a powerful rationale for governance arrangements that extend over the whole of each city-region. Economic development, transport and planning are all deeply inter-connected at this larger spatial scale and powers over them are best exercised in a coordinated way at this level. The justification for devolution, nevertheless, is not that cities have some unique dynamism that can only be harnessed by transferring powers to local players. Rather, the more mundane justification is that city-region management structures make best use of local knowledge and reflect the genuine interconnections between places and bring residents, businesses and investors closer to decision making, which are desirable in their own right irrespective of measurable economic outcomes which may (or indeed may not) result (Tomaney et al 2011).

But our conclusions also indicate that city-region governance should not be equated with a reliance on growth and jobs just in the city itself. Away from London, the UK's biggest cities have a distinctly mixed record as job-generators, even in the better years since the early 1990s. Other places within the city-regions, and beyond, also have the proven potential for growth. What this suggests is that a presupposition favouring big cities for economic development resources, on the assumption that they are the sole or dominant motors of wider UK regional growth, would be quite wrong. The opportunities for growth, and for economic rebalancing, should be supported wherever they happen to occur.

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