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SUMMARY

The north of England has rarely faced such threat and opportunity. Brexit looms; budgets in essential NHS and council services are at breaking point. The world's major, long-term challenges – globalisation, climate change, AI, automation and an ageing population – continue to test the North's energy and innovation.

There are opportunities: new infrastructure – long promised – could soon be brought forward; industrial strategy could support the North's world-leading frontier industries to innovate and advance; new and established mayors can consolidate city-region leadership across the North. These opportunities need to be taken but many more need to be created in the years ahead.

THE NORTHERN POWERHOUSE: PROGRESS TO DATE

For almost five years the Northern Powerhouse agenda has been the driving force behind economic policy in the North. It has defied any clear definition: famously introduced by George Osborne in 2014 it has become a widely-recognised brand for many initiatives that should have happened anyway: connecting Manchester and Leeds with faster trains; supporting ground-breaking new technologies developed in northern universities; marketing the North to overseas investors; and devolving power to mayoral combined authorities.

Despite its strengths, the original Northern Powerhouse agenda had many limitations. For some proponents, its primary objective was to build a new 'London-style megaregion' around Manchester, and so the agenda often side-lined the other places and assets that the North needs to thrive. It overlooked the people of the North, and their need for quality jobs, better health and wellbeing, and it was severely undercut by a programme of self-defeating austerity. The devolution deals themselves were rather partial and piecemeal and the negotiation process lacked transparency. Moreover, this was a top-down agenda dominated by central government: done *to* the North, not *by* and often not even *with* the North.

THE NEXT PHASE OF THE NORTHERN POWERHOUSE

In this year's State of the North report we recommend northern leaders move the Northern Powerhouse agenda into a new phase. We argue that to succeed the Northern Powerhouse of the future must evolve into a comprehensive agenda for the long-term, sustainable economic development of the North. While we acknowledge that this evolution is already happening, we propose a clear break between what the original Northern Powerhouse was, and what it now needs to become.

We draw on a wide range of evidence in order to set out five priorities and make 25 recommendations to develop this next phase of the Northern Powerhouse. We argue that for this agenda to be successful: it must improve the North's health, education and skills levels – its social infrastructure – not just its trains; it must capitalise on the whole of the North's economy – its towns and rural areas, not just its cities; it should ensure the North's economy benefits people directly, through the work they do, their pay, conditions, health, wellbeing and environmental sustainability – not just generate higher economic output; and it must support the 'everyday economy' sectors where many northerners work – not just invest in the niche, high-growth industries. Most importantly it cannot be dominated by central government: the Northern Powerhouse agenda must be *of* the North, *by* the North and *for* the North.

1. COMMIT TO A 'WHOLE NORTH' APPROACH

The original Northern Powerhouse agenda focused almost entirely on the major city regions of the North. Policymakers proposed that improving travel time between the major cities would generate higher productivity through the benefits of agglomeration.

In the next phase, the Northern Powerhouse agenda must draw on all assets and focus on a diverse range of places – including towns, cities, rural areas and natural assets. The North has a diverse geography and each place can each contribute something different to the region's economy if they are enabled to do so.

- The North is home to 15 million people living in many different types of places: it includes five major city regions, 265 towns, almost 1,000 villages and smaller communities; it has 29 Universities, eight major ports, and the UK's largest airport outside of the South East.
- Northern growth won't be driven by growing its cities in isolation: modelling indicates that a UK city with twice the population will only be 1.6 per cent more productive and scale is not associated with greater productivity in the UK outside of London.
- The North's leading energy, advanced manufacturing and health innovation sectors are concentrated outside of cities and tend not to benefit from the economies of agglomeration in the way that is often assumed.

We recommend that northern leaders work together to develop a northern industrial strategy; use local industrial strategies and transport powers to develop all types of places; and learn from regional development in other countries.

2. INTERVENE IN PRIORITY SECTORS ACROSS THE WHOLE ECONOMY

The original Northern Powerhouse agenda focused on supporting technologies and some frontier industries. There were some small-scale interventions to support new innovations in leading sectors.

In the next phase, the Northern Powerhouse agenda must improve productivity and economic justice across all priority sectors. The North's frontier industries – health innovation, advanced manufacturing, energy and digital – need significant investment; but the rest of the economy also needs intervention: professional services enable the frontier sectors to thrive, while 'everyday economy' businesses – shops, hotels and restaurants – are vital too.

- The prime sectors of digital, energy, advanced manufacturing and health innovation will rise in productivity but are expected to shrink by 75,000 jobs.
- Productivity and pay are both lower in 'everyday economy' sectors like retail and hospitality in the North than national averages.
- These everyday economy sectors employ the most people and working conditions can be poor: 1.6 million people in the North – 22.3 per cent of the workforce – work in sectors such as accommodation and food service activities or wholesale and retail, where many jobs pay below the real living wage.

We recommend that northern leaders prioritise real specialisms in frontier industries, but that they also develop productivity and inclusion in the everyday economy sectors, and work to embed resilience and sustainability in their local economies.

3. INVEST IN BOTH INFRASTRUCTURE AND PEOPLE

The original Northern Powerhouse agenda was focused on transport infrastructure. Initially it was mainly concerned with improving links between the North's major city regions – especially Manchester and Leeds – whilst vital social infrastructure has been severely cut back.

In the next phase, the Northern Powerhouse agenda must continue to prioritise transport investment, but also improve the skills and social infrastructure of the North. All the North's people, resources and assets must be brought to bear if the economy is to develop.

- The North received £289 per head on transport, while London received £708 per head on average; and £4,155 transport spending per capita is planned on London, compared to just £1,600 per capita planned on the North – 2.6 times more per capita spent on London compared to the North.
- The North has been severely hit by austerity: since 2009/10 total public spending in the North has fallen by £6.3 billion in real terms – more than any other region, while the south east and south west together received a £3.2 billion rise in public spending during this period.

- There are 930,000 volunteers working with third sector organisations alone, doing work which, if paid, would be worth up to £800 million a year to the North's economy.

We recommend that northern leaders focus on the lowest skilled; develop invest-to-save models of employment support; and incorporate the contribution of public services, unpaid work and arts and culture in local economic policy.

4. DELIVER ECONOMIC JUSTICE

The original Northern Powerhouse agenda focused on productivity and saw every new investment or upward tick in output as a sign of success. Policy makers often expected that the people would automatically benefit from the economy in terms of jobs, pay, health and wellbeing.

In the next phase, the Northern Powerhouse agenda should focus on economic justice. The evidence shows that a fairer North is a stronger North.

- Productivity in the North is 12.6 per cent below the national average, although there is some variation and areas like Cheshire and Warrington are especially productive, but many areas have lower productivity than East Germany.
- 2 million working-age people and 1 million children live in households below the poverty line in the North; a quarter of northern workers – 1.6 million people – are paid below the real living wage; and weekly pay has fallen by £21 (3.8 per cent) since 2008 in real terms – more than nationally (3.3 per cent).
- Health is a major problem and many of the neighbourhoods with the lowest life expectancy are found within the North's city regions – in parts of Salford, Bradford, Sefton and Sunderland – although the neighbourhood with the lowest male life expectancy in England is in Blackpool: 68.

We recommend that northern leaders use their powers over commissioning and employment charters to deliver economic justice in their area; that they monitor their success by measuring the things that matter to local people, such as health and wellbeing; and that they embed inclusive growth, health and wellbeing comprehensively within economic strategies and economic policy governance structures.

5. LEAD FROM THE NORTH

The original Northern Powerhouse agenda was led by the chancellor and delivered by central government agencies. George Osborne raised the profile of the North, and corralled government departments into devolving power.

The next phase of the Northern Powerhouse agenda must be led by the North. New pan-northern organisations are evolving – such as the NP11 and the Convention of the North – but the government needs to reboot devolution so that they can do so more effectively, and there needs to be new opportunities for people to engage with local policy makers and the devolution agenda.

- The UK is highly centralised – only 1 per cent of UK GDP is spent on economic affairs outside of central government, compared to the OECD median of 1.6 per cent, 2.2 per cent in France and 2.5 per cent in Germany.
- Up until 2016 the UK was becoming more centralised in terms of devolved expenditure, while remaining essentially the same in terms of tax revenue.
- 41.7 per cent of the North's population and 40.1 per cent of its economy is currently governed by a new metro mayor.

We recommend that northern leaders focus on fiscal devolution 'quick wins', but also demand UK-wide coherence to devolution; and use devolution to democratise economic policy – through mechanisms like citizens' assemblies, participatory budgeting and citizen panels.

The progressive policy think tank

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