

IPPR  
NORTH

REPORT

THE  
STATE  
OF THE  
NORTH  
2015

FOUR TESTS FOR  
THE NORTHERN  
POWERHOUSE

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## ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With its head office in Manchester and representatives in Newcastle, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR North specialises in regional economics, localism and community policy. Our approach is collaborative and we benefit from extensive sub-national networks, regional associates, and a strong track record of engaging with policymakers at regional, sub-regional and local levels.

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# SUMMARY

Since last year's first *State of the North* report (Cox and Raikes 2014), a particular term has very quickly become part of the English lexicon, and played a part in the Conservative victory at the 2015 general election.<sup>4</sup> That term is the 'northern powerhouse'.

The government has excelled in being largely unspecific as to what exactly the northern powerhouse is – indeed, ministers have been criticised for not being able even to define its boundaries. However, issues of definition seem not to have halted the general enthusiasm for thinking and talking about the northern economy – and the great northern cities in particular – in very much more positive terms than have hitherto been used.

The chancellor has made clear that he sees the combined economic weight of the northern cities adding up to more than the sum of their parts, but that in order to achieve their potential they need much greater levels of autonomy in order to shape and drive local economic growth. So, as we publish this *State of the North 2015* report, the government is in the midst of negotiating as many as 38 'devolution deals' with city- and county-regions across the country, including 12 within (or which include parts of) the north of England.

Despite its general salience, the northern powerhouse narrative is not without its critics, not least those who fear that the economics of the powerhouse depend too heavily on wealth trickling down from the core cities. Others argue that public service reform – and health devolution in particular – is simply a smokescreen for privatisation and further public spending cuts. Furthermore, many consider the apparent imposition of directly elected mayors to be entirely undemocratic.

It is in this contested context, then, that this report asks a simple question:

## **How will we know whether the northern powerhouse is working?**

In simple terms, standard economic metrics such as levels of economic growth and productivity paint an important picture. Yet they don't necessarily paint the full picture; neither are they always entirely helpful in planning for the future. For this reason, this *State of the North 2015* report is framed around four tests – prosperity for all, education and skills, investing in the future, and tackling the democratic deficit – alongside 11 unashamedly ambitious benchmarks, against which the success of the northern powerhouse agenda should be judged. Through them, it provides a vision for policymakers and practitioners of the kind of economy and society that the north of England is capable of becoming.

### **Test 1: Prosperity for all**

The chancellor, in discussing the northern powerhouse, recognises not only the region's scale and potential but also its weaknesses. In terms of size alone, the north of England is indeed a powerhouse. Its economy is worth £289 billion – making it more than twice the size of Scotland's. Its population is 15.1 million, and its cities are growing faster than anywhere else in the UK outside London. It is home to one million businesses and 29 universities, and exports goods worth more than £55 billion each year.

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<sup>4</sup> <http://labourlist.org/2015/05/the-election-result-is-not-as-simple-as-a-north-south-divide/>

Beyond these facts, a fresh analysis of the data shows that the North's recent economic growth compares reasonably well to that of the UK as a whole, when London is excluded, and that despite an overall picture of low productivity, many parts of the North – both within and outside its major cities – are actually thriving.

However, too much of the region's potential is wasted. It has some of the lowest levels of productivity in the whole of Europe. An average worker in the North would, in effect, have to work more than 24 additional 35-hour weeks each year in order to generate as much economic growth as an average worker in London. Too much of its labour is underutilised, and the low incomes that result lead to high levels of poverty and disadvantage.

If the northern powerhouse is to be successful, economic powers must be devolved to allow northern businesses and policymakers to develop an economic model that supports more productive, resilient and sustainable growth: jobs that pay well, prosperity that is shared, and opportunities for all. This does not mean simply adopting the 'London model' in northern cities, which would be unlikely to build the prosperity that the North needs – and indeed would be likely to lead to widening inequalities. Instead, it means finding a more equitable balance between productivity, employment rates and wages. Evidence suggests that raising productivity and employment simultaneously can be challenging, and that in most situations the two are antagonistic. However, this has been achieved in recent periods of UK history. In order to stand the best chance of achieving this ambitious goal, significant initiatives to raise skill levels, and investment in infrastructure and research and development, are needed.

For this reason, our first test can be articulated as follows.

**The northern powerhouse must generate a better type of economic growth which combines rising productivity with more jobs and higher wages for all.**

We will know that we are making progress towards this goal when three related conditions are met.

First, we need to **halve the productivity gap between the North and the UK as a whole**. If the national rate of productivity growth to 2020 continues up to 2025, to achieve this the North will need to increase labour productivity by £8.50 per hour by that point, which would mean an annual increase of 2.3 per cent each year. Increased productivity is a necessary precondition, albeit not a sufficient basis, for northern prosperity.

Second, we need to **reach an employment rate of 75 per cent, and halve the gap with the national 'full employment' rate**. This will require 600,000 new, good quality jobs.<sup>5</sup> Dolphin and Lawton (2013) propose that the UK should target an employment rate of 80 per cent, a figure that is more in line with the performance of comparable economies. While ideally this would mean all regions of the UK attaining this rate, we suggest the more realistic goal of halving the gap between the North's current rate and the desired 80 per cent rate.

However, job creation alone will not be enough. Given the entrenched worklessness that has persisted over the long term, and the more recent epidemic of low pay and underemployment, policymakers must do everything within their power to ensure that jobs are of sufficient quality, and are accessible to those who need them.

So, third, we need to **reduce the proportion of people on low pay<sup>6</sup> in the North to at least the national average**. Two very clear lessons that emerge from the experience of recent years are that work is no longer a route out of poverty, and

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<sup>5</sup> These figures use the working-age population forecast for 2025 as their basis.

<sup>6</sup> Defined as less than two-thirds of gross median hourly pay for all workers.

that rising productivity and economic growth do not automatically feed through into higher pay. Furthermore, high wages can, in the right circumstances, feed through to better progression for employees and higher productivity for employers. While interventions by policymakers, at both the local and national levels, have made a difference at the margins – through living wage policies, for example – devolution offers opportunities to grapple with some of the structural issues around the ‘low-skill equilibrium’, which acts as a drag on pay and progression.

## Test 2: From early years to higher skills

It may be a cliché to say that any economy’s greatest ‘asset’ is its people, yet it is also very true. We know that a workforce’s skills are the most critical factor in raising economic productivity – more so than transport and other forms of infrastructure. Yet a highly skilled workforce must be built on firm foundations. For the northern powerhouse to succeed, it must sow the seeds of its future sustainability and success by ‘starting young’.

Therefore, a key test of the northern powerhouse must be the extent to which it invests in the skills of the region’s population. This means taking a long-term view by prioritising early years provision, and working constantly to align labour supply and demand in a complex and dynamic labour market.

From the original analysis of data presented in this report, three distinct points stand out.

- **Social and economic ends are inseparable** – providing citizens with a high standard of education is a good in its own right, but it is also an essential means of ensuring that the current and potential labour force has the ‘human capital’ and skills that the economy needs in order to grow.
- **London’s early years and broader education attainment shows what can be achieved with investment and targeted public policy** – especially for the most deprived. There is an 12-percentage-point ‘early years gap’ between the performance of the poorest children under the age of five in London and those in the North.
- Alongside investing in the skills of the current and potential workforce within the North, **the economy will need to continue attracting migrants from inside and outside of the UK if it is to prosper.**

Much needs to be done in order to meet our ambitions in the area of education and skills, but the northern powerhouse’s success in this area can be judged against our second test, which is as follows.

**The northern powerhouse must liberate the potential of its greatest asset – its people – through huge improvements to the development of skills, starting with the very youngest.**

We will know that we are making progress when the following benchmarks are reached.

First, the North must **catch up with the national rate of early years attainment for under-5s, with a focus on the most deprived**. The North’s relatively poor attainment in early years stands in stark contrast to attainment nationally. Furthermore, the very poorest children in London outperform even those in the North who are far less deprived. While poverty is an important factor, this gap serves to highlight the potential for policy to make a difference. The North is lagging behind, and it must improve faster – closing the gap with the country as a whole – if it is to embed prosperity for future generations.



Second, we must **close the gap in GCSE attainment, in terms of the number of pupils achieving five or more GCSEs including English and maths, focussing particularly on deprived young people**. The North's poor performance at GCSEs (1.9 percentage points worse than England as a whole) is driven by poor attainment among its most deprived young people (3.1 percentage points worse).

And third, the North needs to **meet the projected demand from employers for skilled workers qualified to QCF level 3 and above**. Projections indicate that there will be demand for more than 2.4 million people qualified to QCF level 3 or higher by 2022.

### **Test 3: Investing in the future**

The northern powerhouse not only needs investment in its people, it also needs investment in innovation, in research and development, and in its creaking infrastructure. Decades of underinvestment have left the North's economy failing to meet its potential – and, as a consequence, fewer skilled people are attracted to and stay in the region.

The original One North plans for improving transport connections between and within the great northern cities, now being developed under the auspices of the new Transport for the North body, have galvanised action across the north of England, and represent the most visible manifestation of a fresh commitment on the part of policymakers and political leaders to collaborate in order to bring about change.

However, as our new analysis of the data shows, actual investment in the northern powerhouse falls a long way short of the rhetoric, and there is little sign that this is about to change. The relationship between public and private investment is critical in this context.

Government very often makes the case that to invest in certain areas or industries would be to interfere with, or prop up, a failing market. However, when it comes to investment in research and development in the North, the government is failing to keep pace with both the market and the rate at which it itself is investing public funds in the North's assets and its economic future. Alongside this, it is evident from big infrastructure projects like Crossrail that private investment is unlikely to be made unless and until government has committed large sums of public finance to getting such schemes off the ground. In the case of the northern powerhouse, high-profile trips to Malaysia and China have their place, but to unlock inward investment of this nature, the government itself must invest in – or at least provide guarantees for – major infrastructure projects.

In 2015, IPPR North argued that we need to see a doubling of government investment in research and development activity in the north of England, to the point where the proportion of government investment in research and development in the North matches that made by the private sector. Furthermore, starting with the spending review in November, the chancellor must make a step-change commitment to large-scale capital investment in infrastructure in the North, such that by the beginning of (rail) control period 6 and roads investment strategy 2, the government will be committed to at least £50 billion of public investment in northern infrastructure which can be used to leverage greater private investment.

Our third test is, then, as follows.

**The northern powerhouse must involve investment in future success, particularly in terms of enabling innovation and building the infrastructure we need for the 21st century and beyond.**

We will know that we are making progress towards this goal when we achieve two further benchmarks.

First, levels of investment in research and development in the North should match those of the very best regions in Europe. Research and development intensity – measured as a proportion of GDP – is currently at around 1 per cent in the north of England. In order for it to enter the top quartile of European regions, this would need to rise to around 1.3 per cent.

Second, levels of commuter travel between the major cities of the north of England should reach the levels we would expect to see in similar metro-regions in Europe. It has been estimated that, as things stand, levels of commuter travel between Manchester and Leeds are 40 per cent less than might reasonably be expected. The plans currently being developed by Transport for the North are expected to be transformational in this regard, creating a much broader labour market geography than we have currently.

#### **Test 4: Tackling the democratic deficit**

The devolution of powers is a key plank of the thinking behind the northern powerhouse. Devolution deals have recently been negotiated with a number of the North's biggest city-regions, with the intention of providing them with the powers and freedoms to enable more localised approaches to driving economic growth and making public services more efficient and effective. The northern powerhouse agenda has, however, also become synonymous with the government's attempts to coerce big cities into adopting directly elected metro mayors. The thinking behind these moves is that as powers are devolved, so too must local political leadership be exposed to greater transparency and accountability, and also that metro mayors often exemplify strong civic leadership in driving transformation and change.

What seems to be less recognised or explicit is the potential for devolution to stimulate democratic engagement and innovation from the bottom up. The apparent imposition of metro-mayors, and the manner in which devolution and deal-making has been conducted, is considered by some to be an affront to the democratic process, and has clearly soured rather than stimulated and renewed the relationship between citizens and their representatives. Yet establishing a new democratic settlement appears critical to the long-term success and sustainability of the northern powerhouse project.

In the general election of 2015, voter turnout across the whole of the North was 64.4 per cent – slightly less than the overall rate of 66.9 per cent.<sup>7</sup> However, this turnout was far from uniform across the region, ranging from a low of 53.6 per cent in one constituency in the North East to a high of 77.0 per cent in one constituency in Yorkshire and the Humber. One of the reasons why people don't vote is that they feel their vote won't change anything. Polling on this issue shows that the North East and Yorkshire and the Humber fare very badly compared with other regions: it found that around 80 per cent of people in both regions felt that people like them had no say over what the UK government does.

However, perhaps more significant for the northern powerhouse is the fact that a greater proportion of people in the North East and Yorkshire and the Humber, relative to the national average, felt that they had little say over what *local* government does either. Furthermore, in those same regions, people are more unhappy about the power imbalance between central and local government than the national average. Even in the North West, where people are less concerned about the issue, still one in three feel that the split between central and local powers is imbalanced.

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<sup>7</sup> Total vote turnout (including postal votes rejected and votes rejected at count).

If the northern powerhouse is to come to be considered a democratic success, we would expect to see growing satisfaction with the balance of power between central and local government, as well as rising levels of public efficacy and turnout in both national and local elections. Our fourth, democratic test is as follows.

**The northern powerhouse must rejuvenate local democracy by giving people a genuine involvement in the way the north of England is run.**

Our democratic benchmarks for the northern powerhouse can, therefore, be framed as follows.

**The proportion of people who feel that the balance of power between central and local government is 'about right' should increase to at least the national average in every northern region.** Given the recent Scottish experience, this will require not only the ongoing devolution of powers but also a much greater sense of local political leadership and autonomy without the interference of Westminster.

**Levels of public influence and efficacy in the northern regions, particularly at the local level, should rise above the national average, such that more than a third of people feel that they have a real say over what their local authority does.** Once again, this will involve the government returning powers over the economy and public services to local and combined authorities, and the roles and responsibilities of their city leaders and metro mayors becoming much more visible and transparent to the public.

**At least half of the electorate should exercise their right to vote in mayoral elections in northern cities.** There has been considerable debate about the necessity and merits of directly elected mayors for the newly-formed combined authorities, and the growing number of devolution deals that have been wedded to them. However, if they are to garner the mandate and authority that government believes they should, then high turnout will be an absolute prerequisite.



At the beginning of this new parliament, and with the northern powerhouse in the ascendancy, our ambition for this report is not so much to provide detailed policy prescription as it is to set out something of a vision for what could be achieved for and by the people of the North. Many of the policy prescriptions necessary to achieve these benchmarks are set out in IPPR North's back-catalogue of work – and we will continue to identify more and better ideas for the future. We offer them, in a spirit of optimism and ambition, to stoke new thinking within the burgeoning northern powerhouse debate.