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Cities and demand-side policies for inclusive growth

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1. Introduction

There is growing momentum behind the Inclusive Growth agenda in UK cities. Two trends have helped bring this about. The first is the **problem of stagnant living standards** for many social groups, particularly in post-industrial cities and regions. The benefits of economic growth in the 2000s were not evenly shared, cities with successful economies experienced growing inequality, while others experienced relative decline.¹ Such social and spatial inequalities are seen as hampering productivity improvement and future growth.² Second, the **devolution agenda** has seen new powers and freedoms devolved to cities. As a result, this trend has highlighted the growing role of cities in spurring economic growth and tackling inequalities.

Policy in the UK has typically focused on the supply side of the labour market. This has led to relatively high labour market participation, however this has been achieved through significant growth in low paid employment. Furthermore, current evidence on social and spatial inequalities demonstrate that **supply-side policies have struggled to deliver the ‘more and better jobs’ of inclusive growth on their own.**³ Therefore, **the demand-side**, which has been relatively neglected over the past two decades, needs more attention in the consideration of city level policies for inclusive growth. This does not mean demand-side policies should be pursued on their own. Rather, they should be thought of as complementary to supply-side interventions – **policymakers should strike a balance between supply-side and demand-side policies** to stimulate inclusive growth within cities.

¹ Lee, N., Sissons, P., Hughes, C., Green, A., Atfield, G., Adams, D., Rodriguez-Pose, A., (2014), Cities, Growth and Poverty: A Review of the Evidence, Joseph Rowntree Foundation: York; Pike, A., MacKinnon, D., Coombes, M., Champion, T., Bradley, D., Cumbers, A., Robson, L., and Wymer, C., (2016), Uneven Growth: Tackling City Decline, Joseph Rowntree Foundation: York.

² Cingano, F. (2014) Trends in Income Inequality and Its Impact on Economic Growth. OECD SEM Working Paper No. 163, OECD: Paris.; Ostry, J. D., Berg, A., and Tsangarides, C. G. (2014) Redistribution, Inequality, and Growth. IMF Staff Discussion Notes. International Monetary Fund: Washington DC; RSA Inclusive Growth Commission 2016 Emerging Findings, RSA: London.

³ Ostry, J. D., Berg, A., and Tsangarides, C. G. (2014) Redistribution, Inequality, and Growth. IMF Staff Discussion Notes. International Monetary Fund: Washington D.C.

Research has yet to consider how cities can use **demand-side approaches to stimulate inclusive growth**. This submission addresses this gap and sets out the emerging findings of an ongoing project on demand side approaches to inclusive growth in cities, funded by the Joseph Rowntree Foundation's (JRF) Cities, Growth and Poverty programme. The **aims of the research** are to develop a set of demand-side policy proposals for economic development strategies in UK cities capable of contributing to inclusive growth on the basis of both their current set of powers and resources and enhanced devolved powers and resources.

2. Rediscovering the demand-side in city economies

Despite the government's ongoing focus on supply-side policies for the labour market, its new industrial strategy Green Paper, *Building our Industrial Strategy*, shows a growing recognition of demand-side approaches to economic development, particularly in cities and regions with weaker economies.⁴ Contemporary thinking on demand-side approaches differ from traditional arguments for industrial policy as they are based on strong economic rationales for geographical or place-based interventions, rather than targeting industries in a 'spatially blind' manner.

Our definition of demand-side policies for inclusive growth in cities is:

Policies that seek to raise the level and enhance the quality of aggregate demand for labour in a city economy, increase labour demand for specific groups within the city, and/or improve the quality of jobs.

Increased labour demand can generate 'more *and* better jobs', such as through stimulating growth and employment creation in higher-value tradeable or export sectors and through positive multipliers in the non-tradeable or basic sectors.⁵

Quality of jobs can be assessed through several factors: whether recruitment has occurred without discrimination (i.e. equal opportunities recruitment), terms and conditions of employment, relative wage levels, opportunities for career progression, and trade union recognition.⁶

⁴ HM Government (2017) *Building Our Industrial Strategy*, HMSO: London; Rae, J. (2016) *Back to the future: Industrial Strategy in 2016*. 20 September 2016, <http://www.nesta.org.uk/blog/back-future-industrial-strategy-2016>

⁵ Moretti, E. (2013) *The New Geography of Jobs*, Houghton Mifflin Harcourt: New York.

⁶ OECD (2014) *How good is your job? Measuring and assessing job quality*. Chapter 3, OECD Employment Outlook 2014, OECD Publishing, Paris.

There are three potential targets of demand side policies for inclusive growth:

- **The creation of new, mid-wage jobs** - to replace employment which is being 'hollowed out' in sectors such as manufacturing or occupations such as book-keeping. This is in contrast to past efforts at economic development, which have often focused mainly on highly-skilled sectors. However, this faces the ongoing challenge of creating mid-skilled jobs at the same time as technology displaces them.
- **Raising wages and productivity in existing, low-paying sectors.** For example, two sectors with high rates of low pay – “Accommodation and food services” and “Wholesale and retail” – are predicted to grow significantly over the period 2014-2024. If patterns of low pay persist, the result would be an additional 321,000 low paid jobs in these two sectors alone.⁶ Improving productivity in these sectors could play an important role in addressing the UK's twin challenges of low productivity and stagnant living standards.
- **Better matching between demand and supply** where job creation meets the needs of existing residents. For example, demand-side approaches could match the demands of the labour market with the skills of existing residents.

3. Rationales for policy intervention

The inclusive growth agenda is challenging the conventional ideas of the trade-off between efficiency (growth) and equity (fairness) and the emphasis upon fixing market failures as the sole basis for policy intervention. Therefore, in viewing efficiency and equity as complements rather than substitutes, **policy intervention can now be justified on the basis of achieving both growth and fairness.** This justification informs the following demand-side rationales for inclusive growth policies:

- **Demand deficiency** reflects a lack of demand for the goods and services produced within the city economy. This results in lower levels of economic activity, less derived demand for labour and undermined confidence in

⁶ Lee, N., Green, A. and Sissons, P. (2017) Low pay, sectoral change and UK labour market policy. *Forthcoming.*

economic prospects.⁷ The rationale for intervention is therefore based upon generating demand to stimulate or kick-start the city economy. From an inclusive growth perspective, the types of jobs created are just as important as the number of jobs created.

- **Demand complementarities** relate to linkages between producers in an economy. If policies can build and strengthen complementary relationships between producers within a given industry, this may result in mutually boosting each other's demand, generating increasing returns to scale, promoting cumulative growth and creating further employment opportunities.⁷
- **Information externalities** arise when public *and* private sectors have imperfect information and are unable to identify potential growth opportunities and cost structures (i.e. when goods/services can be produced at a low enough cost to be profitable).⁸ Here, the rationale for policy intervention is based upon uncovering and sharing information to resolve this problem. Addressing these information asymmetries can provide governments with the ability to implement more robust policies that achieve inclusive growth.
- **Co-ordination externalities** arise through the (mis)alignment of economic activities by the public and private sectors. For example, the government may not provide appropriate infrastructure that is tailored to the needs of local businesses, thereby stifling their ability to thrive. The policy intervention rationale is to provide the missing co-ordination by investing in upstream and downstream infrastructure that targets the specific needs of the private sector in a given location. This alignment generates will help businesses improve productivity, grow further and create more jobs at varying skill levels.

⁷ Gordon, I. (2002) Unemployment and spatial labour markets: strong adjustment and persistent concentration. In R. Martin and P. Morrison (Eds.) Geographies of Labour Market Inequality, Routledge: London

⁷ Chang, J-H, Andreoni A. and Leong Kuan, M. (2013) International industrial policy experiences and the lessons for the UK. Foresight Future of Manufacturing Project. Evidence Paper 4; Rodrik, D. (2004) Industrial Policy for the 21st Century, John F. Kennedy School of Government. Harvard University: Cambridge, MA.

⁸ Rodrik, D. (2004) Industrial Policy for the 21st Century, John F. Kennedy School of Government. Harvard University: Cambridge, MA.

- **Technological change and externalities** refer to the imperfect information, risk and uncertainty associated with investments in innovation and knowledge creation leading to their under-provision by private sector actors. Addressing such externalities is a rationale for policy intervention.⁹ Policies include investment and support for public R&D and subsidies for the private sector especially focused upon blue skies, ‘far from market’ ideas and potentially game-changing general purpose technologies. Stronger versions of this rationale underline the entrepreneurial role of the state in creating and shaping markets and stimulating transformative economic change.¹⁰ Such activity has focused upon longer-term productivity improvement and growth at the national scale, but there is considerable scope for this rationale to inform strategies for more and better jobs at the city level.¹¹
- The **low skills equilibrium** occurs when a city economy becomes locked into a cycle of low value-added, low skills and low wages.¹² This reflects a lack of demand for more skilled labour, generating wider problems of inequality and in-work poverty. The low skills equilibrium is often geographically concentrated in places affected by de-industrialisation and long-term structural change.¹³ This rationale for policy intervention aims to dislodge the city economy from a low skills equilibrium position through the growth and attraction of higher value-added sectors and activities. This would generate higher skill and higher wage jobs, improve skills and training provision and raise employer and employee aspirations. However, upgrading and job enhancement initiatives must be carefully balanced with inclusion and job creation.¹⁴

⁹ Rodrik, D. (2004) Industrial Policy for the 21st Century, John F. Kennedy School of Government. Harvard University: Cambridge, MA.

¹⁰ Mazzucato, M. (2013) The Entrepreneurial State: Debunking the public versus private sector myths. London, Anthem Press.

¹¹ Markusen, A. (2015) The high road wins: how and why Minnesota is outpacing Wisconsin. The American Prospect, 26, 2, Spring, 100-107.

¹² Wilson, R. and Hogarth, T. (2003) (Eds.) Tackling the Low Skills Equilibrium: A Review of Issues and Some New Evidence. Institute for Employment Research: Warwick University

¹³ Beatty, C. and Fothergill, S. (2016) Jobs, Welfare and Austerity: How the destruction of industrial Britain casts a shadow over present-day public finances. CRESR: Sheffield Hallam University

¹⁴ OECD (2016) The Productivity-Inclusiveness Nexus. Meeting of the OECD Council at Ministerial Level, Paris, 1-2 June 2016, OECD: Paris.

- **Resilience** is the (geographically differentiated) capacity for city economies to withstand, respond and anticipate disruptive economic, social and environmental change.¹⁵ City economies have become more vulnerable to external shocks because of the increased interdependence between places that results from globalisation. The adaptive capacity of city economies is central to their resilience. Adaptive capacity refers to the abilities of people and institutions to promote change and economic renewal in response to disruptive changes. The rationale for policy intervention is therefore based upon promoting a greater adaptive capacity of cities. This involves safeguarding employment amidst disruptive change as well as encouraging the rapid adaptation of city economies and their derived demand for labour.

4. Policy types and examples

Our current JRF-funded research seeks to move beyond the traditional emphases on employers and occupations to broaden the understanding of demand-side policies and widen its scope to include **business support, employment and skills, city fiscal policy, infrastructure, and economic planning and strategy** (Table 1). Instead of just looking to provide more jobs, the inclusive growth agenda is concerned with the challenges of **generating ‘more and better jobs’ in the aggregate, ‘filling-in’ mid-level jobs and upgrading existing low quality jobs.**

The policy types are elaborated further in Table 1 which provides examples of the different types of policy interventions. These policies can be focused on **different types of business**: existing businesses, the creation of new enterprises and inward investors. Interventions can also be targeted at **particular industries, occupations and geographical areas** of the city. Industry or sector-focused initiatives aim to shape the industrial/sectoral structure of the city economy, typically by supporting and attracting industries with strong growth potential. Occupational targeting has two aims: first to attract growing and future-oriented occupations, and second to upgrade job quality within existing occupations by improving pay levels and conditions.

¹⁵ Pike, A., Rodríguez-Pose, A. and Tomaney, J. (2017) Local and Regional Development. London: Routledge

Finally, area targeting involves a focus on identified districts or neighbourhoods. These are typically centrally located ones with high growth potential or disadvantaged areas in need of regeneration.

Our JRF-funded research is also investigating **city-level case studies of demand-side initiatives** (Table 2). These have been selected to showcase novel ways in which policies have been developed to address the rationales for intervention discussed above. There are few examples of what might be termed ‘pure’ demand-side policies at the city scale, reflecting the general orientation towards supply-side interventions in recent decades. Instead, the case studies identify demand-side elements and measures that are often linked to other economic development objectives and associated supply-side components.

5. Next Steps

This submission has offered a brief summary of the research undertaken so far for the project. The final report will be published by JRF in the spring, and will also include:

- Estimates of the **more and better jobs gap** in UK cities;
- Consideration **of which sectors and occupations create the better jobs** required for inclusive growth and the extent to which cities could target them;
- **Detailed case studies** learning from the international demand-side policies identified in Table 2;
- **New thinking** on what demand-side policies for inclusive growth could look like in UK cities under their current set of powers and if they acquired enhanced devolved powers and resources.’

6. Summary

Renewed interest in demand-side policies within city economies opens up further potential for interventions that can pursue more inclusive forms of growth. We suggest that these should not be pursued on their own, but rather as complements to supply-side policies. There are several rationales for policy intervention on the

demand-side to stimulate the creation of more and better jobs: demand deficiency; demand complementarities; information externalities; co-ordination externalities; technological change and externalities; low skills equilibrium; and, resilience. Drawing upon these rationales and the emphasis upon the inclusive growth agenda, different policy types can be identified as addressing the needs of different businesses and with potential for targeting on an industrial, occupational and/or area basis (Table 1). International experience and practice demonstrate where and how cities are utilising such demand-side approaches to generating inclusive growth (Table 2).

Table 1 Types of Demand-side Policy in Cities

Type of policy	Rationale	Examples of interventions	Types of business recipients			Potential for targeting		
			Existing businesses	New enterprises	Inward investors	Industry	Occupation	Area
Business support	Support for businesses to expand and raise labour demand and job quality	Subsidised loans and grants; assistance with sites and premises; enterprise zones; business incubators; science and technology parks	✓	✓	✓	✓	✓	✓
Employment and skills	Aims to increase the level and quality of employment and job opportunities in the city and upgrade skills	Career ladder initiatives; subsidised employment schemes; local hire/first source hiring ordinances; entrepreneurship training through occupational associations	✓	✓	✓	✓	✓	✓
City fiscal policy	Use of the tax and expenditure powers of city governments to influence demand within the city economy, particularly labour demand	Tax breaks and incentives; transfer payments (short-term compensation programs, worker subsidies, hiring credits); local procurement and content clauses; tax increment financing programs; creation of market for new businesses through	✓	✓	✓	✓		✓

		government procurement mandates						
Infrastructure investment	Provision of infrastructure to support business growth and employment and to attract new business	Provision of transport infrastructure; land redevelopment and improvement; energy and electricity schemes; information and telecommunications provision, e.g. broadband initiatives	✓	✓	✓	✓		✓
Economic planning and strategy	Plans and strategies for economic development that aim to shape of demand	City economic development strategies; planning policy; city marketing campaigns; enhancement of amenities and services	✓	✓	✓	✓	✓	✓

Table 2. Case studies of demand-side city initiatives

<i>Title</i>	<i>Time scale</i>	<i>Key actors</i>	<i>Demand side and Inclusive growth (IG) rationale</i>	<i>Policy type</i>
Pittsburgh Post-Industrial Transition and Central Keystone Innovation Zone	2004- (transition from early 1990s)	Urban Innovation21 involving State County, key anchor institutions and a number of foundations and private companies	Economic expansion, raise level and quality of demand, target specific groups. Inclusive innovation.	Business support and city fiscal policy (tax credits). Focused on existing and new businesses with area targeting
Chicagoland Manufacturing Renaissance Council	2005-	Manufacturing Renaissance (Labour & Community), City of Chicago, Tooling and Manufacturing Association, Chicago Federation of Labour, etc.	Raise level and quality of demand. Explicit IG focus.	Employment and skills with industry targeting. Covers all types of business.
San Antonio QUEST & Talent Pipelines Task Force	1993-2014-	Social movements, employers, industrial associations and chambers of commerce, the state, workers, colleges.	Explicit focus on in demand jobs and job quality. Explicit IG focus.	Employment and skills and business support with industry and occupational targeting. Focused on existing and new businesses.
Limerick for IT	2014-	Universities, city and county councils, Industrial Development Agency, employers	Explicit employer focus and attraction of new jobs	Employment and skills, business support and economic planning and strategy. Focused on inward investors.
Building the green economy, Albacete, Spain	2008-	The City Council and other partners	Raise level and quality of aggregate demand through focus on key sector	Economic planning and strategy with sectoral targeting. Focused on existing and new businesses.
Infrastructure Investment and Local Content Requirements in Melbourne	2014-	State government, city council	Infrastructure project with local employment and local content clauses	Infrastructure investment, city fiscal policy (procurement) and employment and skills