



Spatial Economics Research Centre

Wednesday, 25 March 2015

Transport for the North and the Northern Power House

[Posted by Prof Henry G. Overman]

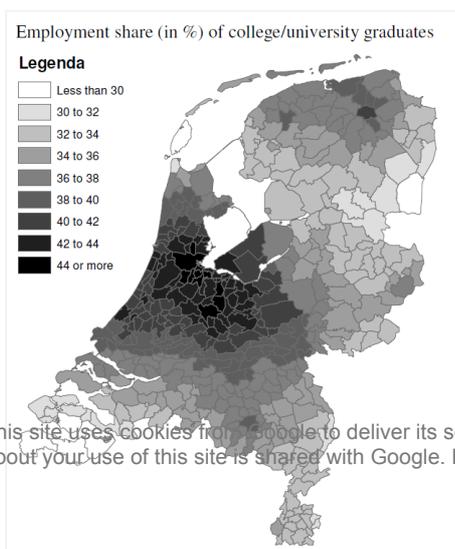
Last November, [at an event in Leeds with the Deputy Prime Minister](#), I expressed some scepticism that transport investment across the North would create a Northern Power House. I argued that two pieces of evidence about city success urge greater caution:

- 1) The evidence on agglomeration economies - i.e. on the factors that underpin the success of cities - suggest that these decay quite strongly with distance. So a key part of London's success, for example, comes from the very high employment densities in central London.
- 2) A crucial driver of city success is the concentration of high skilled workers that are found in our most successful cities.

So the crucial questions about transport in the North is whether improving it will drive high employment concentration in particular places (generating agglomeration economies) and will also lead to a higher concentration of skilled workers in the North. It could, but the spatially distributed nature of the infrastructure investment raises significant doubts on both fronts.

In response to my scepticism, Nick Clegg pointed to the example of the Randstad - and this example occurs again in the recent [Transport for the North Strategy](#). The report even has a diagram showing high journey times between different cities in the Randstad.

Now, the Randstad is, indeed, rich. But it is also the area of Holland with by far the highest concentration of skilled workers as the map below (taken from [a Tinbergen institute paper](#)) demonstrates:



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So, in Holland, the area with the highest concentration of skilled workers has relatively good transport links and is pretty rich. But this is also true in the UK - where these two factors help underpin the relative success of London and the South East.

The [Transport for the North Strategy](#) provides a second example - the Rhine Ruhr area. Again, the report has a diagram showing high journey times between different cities. However, there's a big difference between the Randstad and the Rhine-Ruhr area. The latter (as I discussed with a number of German economists while visiting this weekend) is relatively low skilled and struggling economically. Indeed, according to table 1.1 of [this OECD report](#) in 2006 it's GDP per-capita PPP was lower than Birmingham and Leeds (although a little above Manchester).

So we have two examples - both with excellent transport links. The one with a large share of high skilled workers is doing relatively well, the one with a high share of low skilled workers is doing relatively badly. These two anecdotes are consistent with a much broader body of evidence that points to the importance of skills. It also reminds us that while transport can underpin success it doesn't necessarily drive it (a point made convincingly in the [2006 Eddington Report](#)).

Unfortunately, when it comes to transport, this inability to distinguish cause and effect (or to separate correlation from causation) continues to cause confusion in popular debate. So, while I welcome the greater role for local government in setting transport priorities for the North, I'll continue to be sceptical about the 'transformative' economic benefits that the resulting investment might bring.

Posted by Prof Henry G. Overman on [Wednesday, March 25, 2015](#)

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C said...

Dear Prof. Overman,

I've read that wider economic benefits, apart from agglomeration economies, include "productivity of labour market" through its densification (maybe following Duranton and Puga's rationale?), don't you think it's a sort of double-counting of agglomeration economies that have already had an impact on the labour market?

Best regards,
Cécile

[24 June 2015 at 12:47](#)

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