



Spatial Economics Research Centre

Wednesday, 25 June 2014

HS3 and a Northern Powerhouse

[Posted by Prof Henry G. Overman]

I have finally had a chance to take a look at George Osborne's '[Northern Powerhouse](#)' [speech](#) in which he suggests that a better connected collection northern cities could take on the world. It's an interesting (and [not entirely new](#)) proposition. But would it work? Could joining up northern cities replicate London's success?

Crucial to answering this question is the role that scale and physical proximity play in driving London's success. The evidence suggests that these are pretty important - agglomeration economies arising from scale and proximity help explain London's success.

Once we recognise this, it has fundamental implications for what a more balanced UK economy might need to look like. If creating similar opportunities London requires similar scale and physical proximity, could we get anywhere near this by 'joining' up our Northern cities through greater infrastructure investment? I remain sceptical - not least because [our work for the Northern Way](#) estimating the impact of quite substantial reductions in travel times between Manchester and Leeds suggests only modest economic gains.

In our work, we looked at the impact of a 20 minute reduction in travel time between Leeds and Manchester. We find that closer integration between Manchester and Leeds could be expected to have a positive effect on wages. Our *largest* estimate, for a 20 minute reduction in train journey times between Leeds and Manchester, has average wages increasing by between 1.06% and 2.7%.

These numbers come with some important caveats (discussed in more depth [here](#)). First, they are certainly *not* additional for the UK as a whole because a lot of this effect would come from the fact that Manchester and Leeds will be attracting activity that would have gone elsewhere (and not necessarily London). Second, and related, the effects for an individual worker, with given and unchanging characteristics (often called place-based effects), are smaller at somewhere between 0.20 and 0.50 of a percent.

In short, joining up our Northern cities (particularly Manchester and Leeds) using HS3 would help, but it would be expensive and it's unlikely that it would be enough to provide an effective counterbalance to London.

It is also important to note that a project like HS3 to link cities may not be as effective as other interventions. For example, in the [detailed report for Northern Way](#) (rather than the more widely quoted summary) we tried to use the same methodology to compare the effect of a 1% reduction in travel times *within* Manchester or Leeds to the effect of a 1% reduction *between* those two cities. In all cases, within city reductions in travel times lead to large increases in 'economic mass' (sometimes two to three times larger). As it is these changes in economic mass that underpin any estimated productivity effects, this tells us that a 1% reduction of within city costs would have a larger effect than a 1% reduction of between city costs. Of course, that doesn't tell us whether we should prefer one over the other - that would depend on the relative costs of achieving these cost reductions (which we didn't look at). But it does serve to reinforce the point that it might be difficult to replicate London's advantages from scale and proximity simply by joining up different cities. It also highlights the crucial point that we need to consider the alternatives before rushing headlong for the HS3 solution. I'd argue that this was a mistake we made with HS2 - best not to repeat it.

Of course, part of the attraction of creating a northern powerhouse by joining up cities is that it dodges a very difficult political problem. If balancing the effect of London requires, instead, somewhere 'big and Northern' that raises the very difficult question of where that place might be? Politics being what it is, I can see why many people (myself included) would prefer to dodge that particular question.

Posted by [Prof Henry G. Overman](#) on [Wednesday, June 25, 2014](#)

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2 comments:

[Edward Harkins](#) said...

It's difficult to get beyond the utter cynicism of Chancellor Osborne and PM Cameron and their 'rediscovery' of 'The North' because a UK General Election now looms and their Party is in deep trouble in that area.

Nevertheless, the core of this article is where it's stated: "...joining up our Northern cities (particularly Manchester and Leeds) using HS3 would help, but it would be expensive and it's unlikely that it would be enough to provide an effective counterbalance to London."

The scale of HS2 renders HS3 marginal, at best, from the outset. On BBC Radio 3 Today Osborne declared that the Northern English cities were not as powerful as they could be... yet he remains a stout supporter of HS2 - that will be in, effect, an greatly enhance business commuting rail line to service the needs of a dysfunctionally dominant metro London.

25 June 2014 at 17:16



[Benjamin](#) said...

Of course, direct subsidies to Northern Cities will fail. They always have.

They just need a leveling playing field to compete.

Unfortunately, our tax system is set up to penalise work and enterprise, and reward rent seeking behavior.

As London and the SE account for 60% of land by value, you can see where this activity is most rewarded.

It's no good economists blaming planning for poor outcomes regarding regional inequality or unaffordable housing.

Land rents, capitalised into the exchange value of freehold titles is the root of the problem.

4 July 2014 at 18:31

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