



# Spatial Economics Research Centre

Thursday, 1 November 2012

## The Heseltine Report

The FT has [my reaction to the Heseltine report](#) (£). There's good and bad in there, but on the central recommendations around decentralisation I admit being puzzled. As I explain in the piece: 'there is a tension, which is never resolved, about whether Mr Heseltine calls for the devolution or the [decentralisation of decision making](#). Should cities be free to tax and spend how they like or are they instead to act as localised delivery merchants for some grand central government strategy conceived and developed in Whitehall?'

I'm also unconvinced by the 'back to the future' flavour of some of it: 'On other occasions, however, it appears that Mr Heseltine (like many politicians) finds it hard to take a critical look at policies that they had a hand in developing. Many would suggest that the emphasis on "challenge funds" provides particularly unfortunate example. The Heseltine report isn't all bad. But it is hard to shake the feeling that Mr Heseltine is arguing for a return to policies many of them not particularly successful, that were developed in different times, to tackle different challenges.'

The FT has more on this, so let me instead discuss a couple of themes that I didn't develop fully there. The first of these concerns whether industrial policy should have a strong sectoral component. Mr Heseltine appears to be calling for this with the emphasis on sectoral councils and national government plans. Most economists would suggest that the evidence goes against this recommendation and would prefer horizontal policies (that treat all sectors equally). I wouldn't deny that this evidence is heavily 'contested' but I would argue that the systematic evidence in favour of sectoral policy is hard to come by. By systematic evidence, I mean something that goes out and looks at *all* sectors that are the target of sector specific industrial policy and demonstrates that these do better than sectors that don't receive such help. Instead, most of the so-called evidence adopts the opposite approach find a successful sector, point to the existence of a sector specific industrial policy, trade group etc and argue that the policy drove the success. This is correlation, not causation. For those of you who are interested a [previous post on clusters](#) develops these arguments further.

The other concern is around the localisation of skills policy and the need for local business to play a much bigger role in shaping demand. I hear this claim all the time from local government so this recommendation will certainly be popular outside of Whitehall. The key point, however, is whether it will be effective. Here, in contrast to industrial policy, there is simply no convincing evidence either way. It's unclear whether local areas should put the emphasis on improving general skills (reading, writing, ability to interact with others) or on vocational skills aimed at particular sectors. Similarly, local areas will often point to 'local skills gaps' as a justification for the need to skew local provision towards particular sectors. But this assumes that, e.g. the lack of engineers, is down to the fact that FE colleges provide too many hairdressing courses and not enough engineering courses. If engineering courses were systematically over subscribed that might be compelling evidence to support this proposition - but my feeling is that this is not the case. I think the problem instead is what people want to study (rather than what they can) then changing the supply of places may just lead to lots of empty lecture halls. As I said, there's no convincing evidence either way but I don't think things are as clear cut as the Heseltine report makes out.

There's much more to debate (and for this alone the Heseltine review is welcome), but that will need to wait for another day.

Posted by [Prof Henry G. Overman](#) on [Thursday, November 01, 2012](#)



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