Metro——Dynamics

Growth and transport in Greater Manchester

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Short summary: Recent work suggests that there are a number of binding constraints on growth in the UK's regions, with poor transport emerging as one of the key contributing factors. In this short paper, we look at Greater Manchester, which has seen relatively high levels of investment in transport through the expansion of the Metrolink light rail system and the devolution process. We argue that the patterns of economic improvement within the city-region are consistent with an understanding that centres transport connectivity as a key barrier to regional prosperity.

"Productivity isn't everything. But in the long run, it is almost everything".

- Paul Krugman

The UK is highly regionally unequal, with London and the Greater South East substantially outperforming the rest of the nation across a range of economic metrics – or perhaps more accurately, the rest of the country underperforms relative to the rest of the world. British cities outside of London underperform relative to their population size. The UK also has a generalised productivity problem, with output per person, and real wages, stagnating nationally after the financial crisis. Genuine levelling up means closing the output gap between areas through accelerated productivity growth.

So what do we know about productivity across the UK?

So far, so uncontroversial. But there are many potential constraints on productivity growth in the UK including skills, transport, investment, access to finance. We think that in the current economic context, the focus should be on identifying the most binding constraints on growth to maximise the impact of scarce resources. Those binding constraints on growth are those that, if addressed, would produce the largest economic benefits.

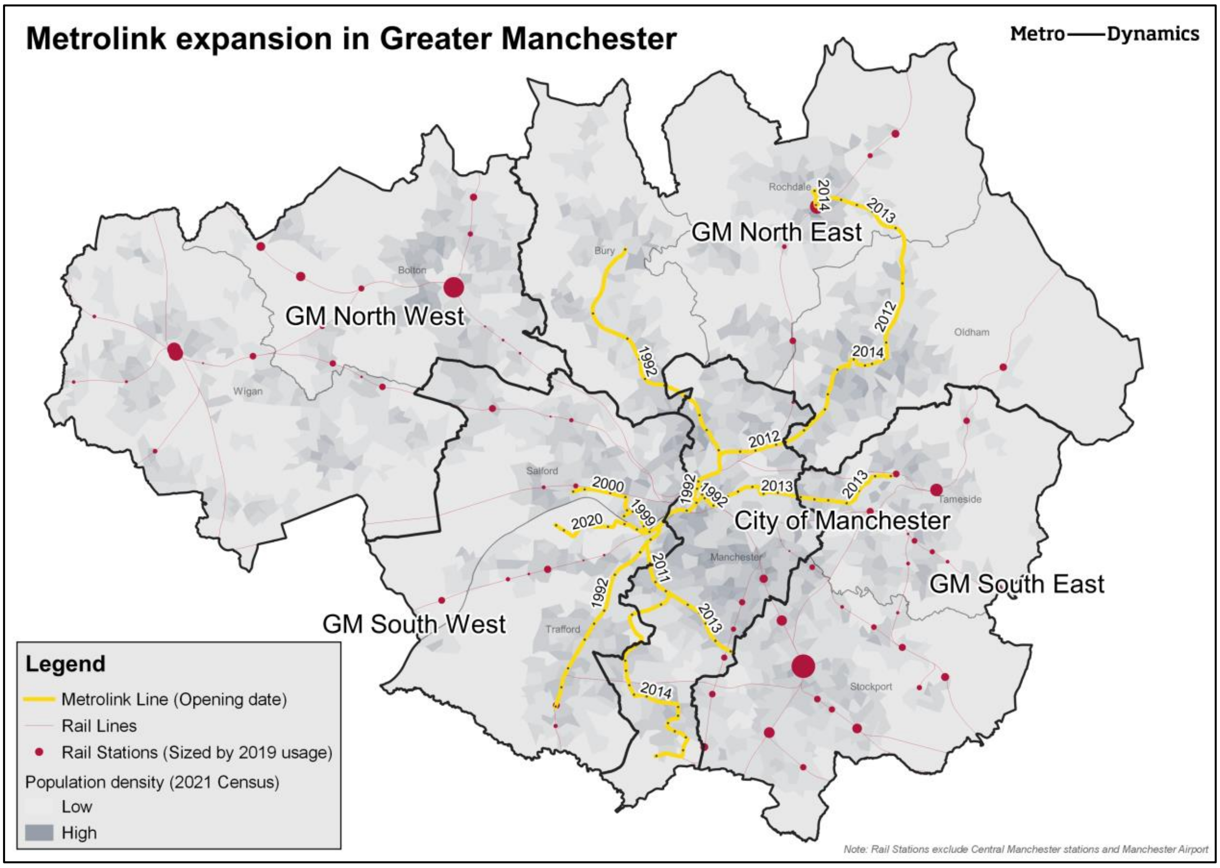
A well-timed new paper looks at these binding constraints. "Tackling the UK's regional economic inequality", by Anna Stansbury, Dan Turner and Ed Balls, finds evidence to suggest that regional transport is a major constraint on economic growth. By reducing the effective size of British cities, poor transport reduces the size of the labour market, which acts as a barrier to the specialisation and matching which drives much of the economic premium associated with large cities.

The authors suggest that underinvestment in transport contributes to the UK's regional inequality and to the UK's general poor performance. Under the UK's uniquely centralised economic model, local leaders (who are best placed to identify the binding constraints in their area) haven't had the powers and finance to address the binding constraints on productivity growth in their areas.

Testing our hypothesis: Greater Manchester

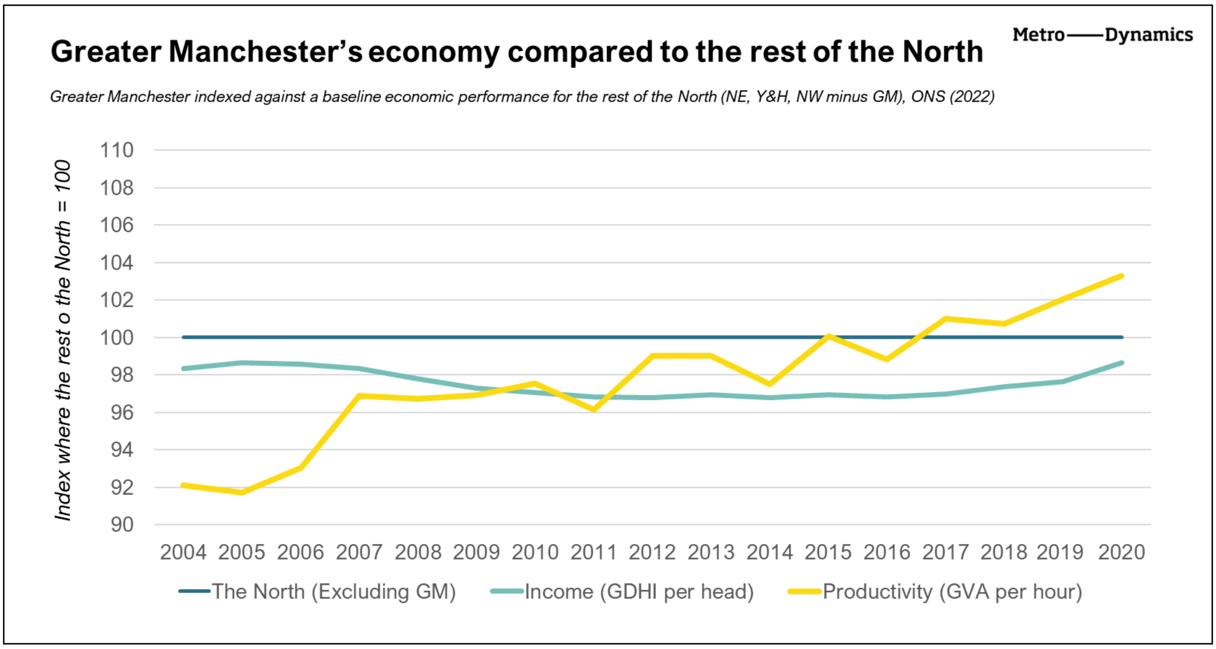
So where might we see evidence that this is the case? We think that Greater Manchester might be a good place to have a first look. The city-region's local authorities are unusually effective in working together, with a strong shared identity, all evidenced in being the first devolved combined authority. When Metropolitan County Councils were abolished in the 1980s, Greater Manchester continued to work together through the Association of Greater Manchester Authorities, and created shared infrastructure like MIDAS, Marketing Manchester and New Economy, the city's "Brains Trust". This strong local capacity to analyse evidence and solve problems has been backed up with strongest and longest lasting set of devolved powers and finance.

In the telling of the Greater Manchester story, the pivotal moment was the Manchester Independent Economic Review (the MIER). The MIER's conclusions were tested early on, in 2009. When plans for a Congestion Charge fell through, the Greater Manchester local authorities united to develop the Greater Manchester Transport Fund (GMTF) by borrowing against future fare revenue. Resulting investments followed the MIER principle of using funding as far as possible to build the size of the functional labour market in the city-region.



The GMTF funded the "big bang" expansion of the Metrolink network from 2009 on (see map above), turning a short stretch of tram line into a genuine mass transit network for most – but crucially not all – of the city-region. To date, the North West of the city-region has yet to benefit from Metrolink expansion (the South East has only had one new line, but is already relatively well served by rail), although expansion is planned via tram-train programmes.

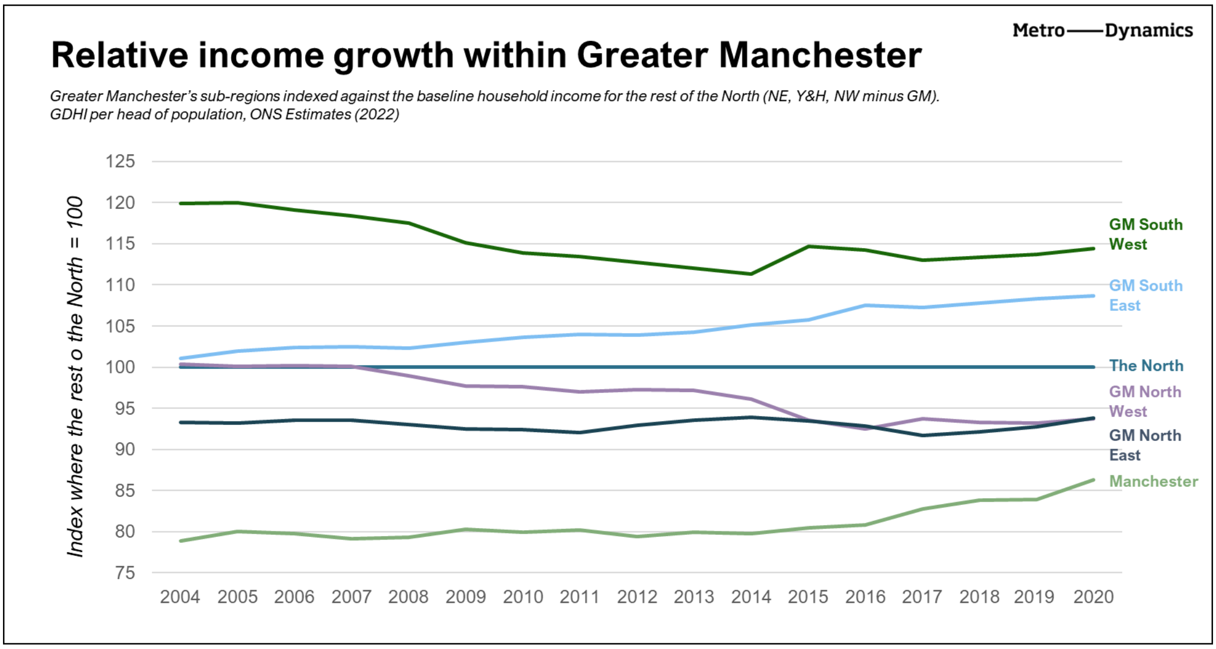
It was hoped that this move would improve the total output of the city-region, while boosting economic opportunities available across the area. So how has this ambition measured up against Greater Manchester's economic performance in recent decades?



Compared to the rest of the North, Greater Manchester has been relatively successful in increasing both economic output and (although more slowly) average incomes for local residents in recent years. It's worth noting that much of the income generated by Greater Manchester's increasingly productive economy goes to residents outside the city-region, so the two won't match, but are both useful in different ways for measuring economic progress.

For the reader, this relative success might not be a shock. The conventional wisdom is that Manchester is booming, and a walk around the city centre won't dissuade you of that notion. Often, the story heard is that a prosperous inner city is now leaving the towns of Greater Manchester behind. So we've broken down Greater Manchester into five sub-regions (or ITL3 areas), to see how this dynamic of growth is playing out across the city-region.

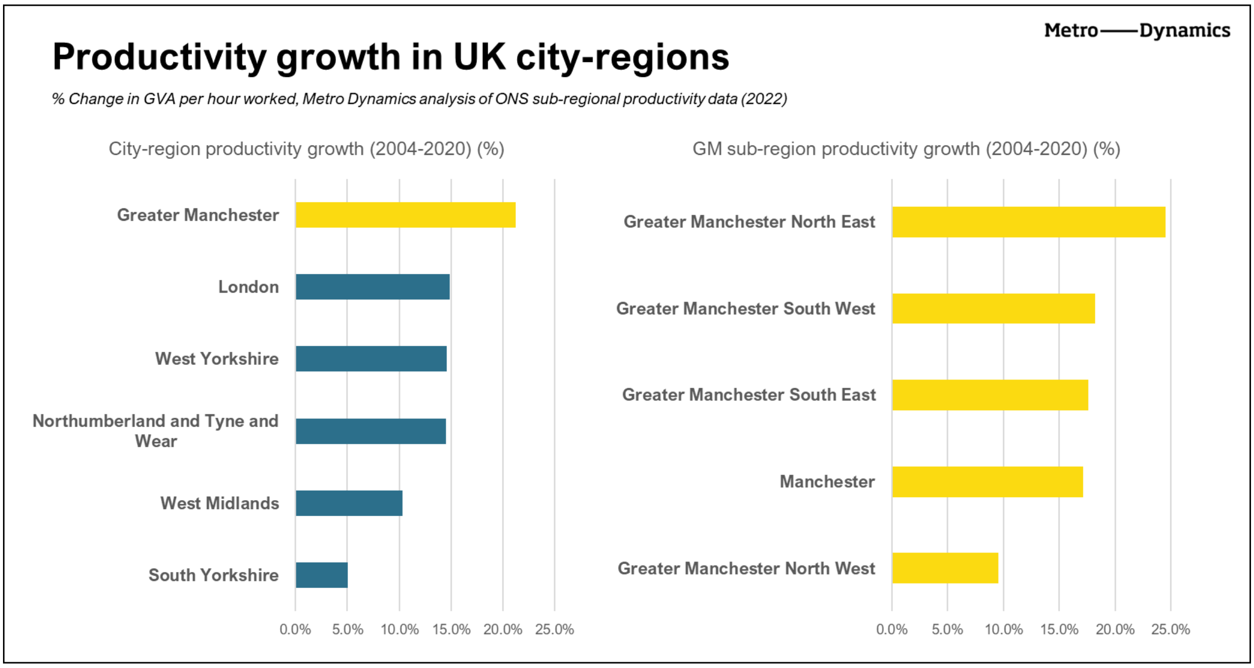
Income growth relative to the rest of the North has been high across Greater Manchester, but especially so in the City of Manchester, which started from a far lower base than the other sub-regions. The notable exception to this rule is Greater Manchester North West (Wigan and Bolton), where household income has declined in relative terms, while other sub-regions of the city are on an upward trajectory and have strengthened their position relative to the rest of the North.



Perhaps surprisingly, recent decades of growth have seen a narrowing of spatial inequality by income at the city-region level, as the gap has narrowed between the most and least prosperous sub-regions of the city. In 1997, an average resident of the least well off sub-region could expect to earn 60% of the wages of a resident of the best off sub-region; in 2020, that gap has closed by 15%.

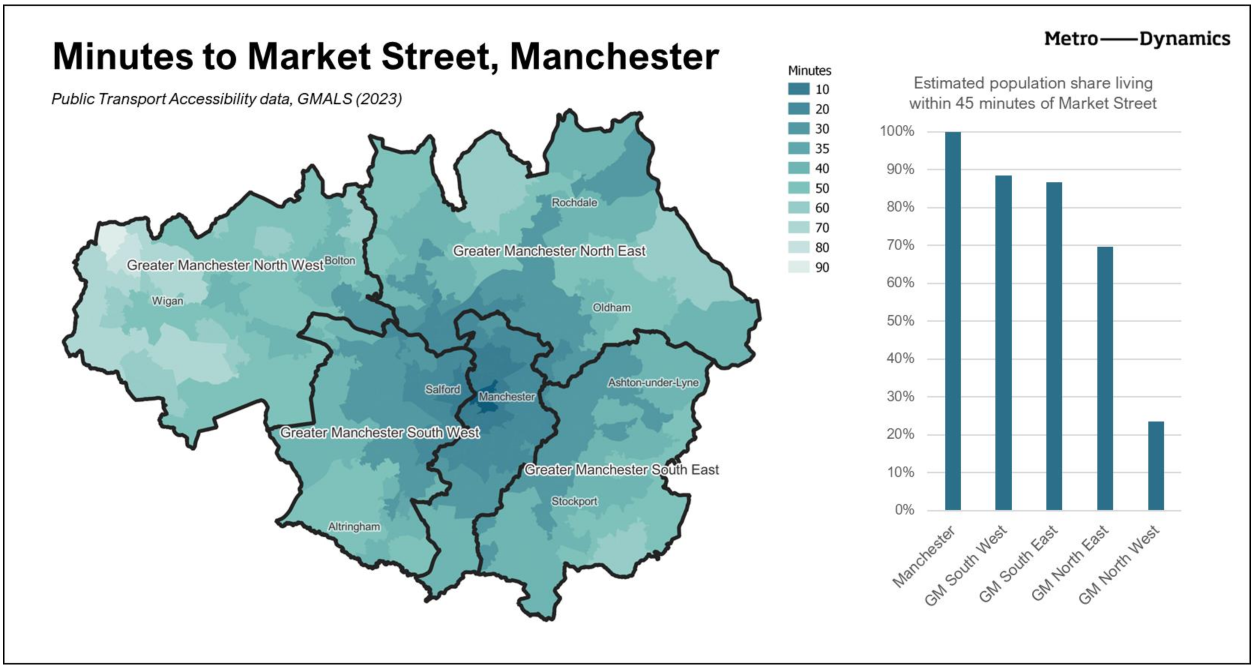
While productivity and income are distinct, we might have good reason to expect that productivity growth would also increase across a successful city-region; as the economy grows, businesses move out to gain space, improving jobs based in well-connected outlying districts and in those providing services to the urban core. In urban areas like London, productivity in local jobs is high across and beyond the city region, not just in the central employment core. So what has productivity growth looked like across and within the city-region?

Greater Manchester has performed well in terms of overall productivity growth since 2004 (which is when the current productivity data set began), seeing the highest percentage productivity growth of any city-region. However, when you break down that how that growth has played out within Greater Manchester, the North West is an outlier, with lower productivity growth than the other sub-regions.



Now to return to the potential role of transport as a binding constraint on growth. Using journey time data from TfGM's Greater Manchester Accessibility Levels Model, we have calculated the median journey time to Market Street by public transport for small areas across Greater Manchester. These are estimates of the best-case journey time by conventional public transport modes, although they do not account for crowding of services or the ease of interchange between modes.

Once again, Greater Manchester North West has a notably different set of outcomes to the rest of the city-region, with only 24% of residents living within 45 minutes of Market Street.



Conclusions

Just based on the example of Greater Manchester, we can't claim with any certainty that transport is a major binding constraint on regional growth. However, Greater Manchester North West's poor public transport connectivity is notable and significant, given that it has not seen the economic improvement seen elsewhere in the conurbation. Indeed, Greater Manchester North West now has similar income levels to the now better-connected area of Greater Manchester North East (Bury, Oldham and Rochdale) which started from a substantially weaker economic position. This is consistent with an argument identifying transport connectivity as a major binding constraint on prosperity.

This short piece has outlined some of the potential associations between growth constraints like transport, and economic improvement, but there is much more work to be done. In particular, more should be done to understand the small area causal effects of transport interventions, and to broaden our scope to look in depth at other city-regions in recent decades.

We think there is a strong case that moving to address the most binding constraints on regional growth should be a priority for policy makers. Investment in Greater Manchester over the last two decades has followed a consistent strategy of addressing binding constraints by expanding the size of the labour market, through transport interventions. It now appears that approach could be making a gradual difference both in growing the overall economy, and sharing the benefits of that growth across a city region.

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