

# CITIES, GROWTH AND POVERTY: EVIDENCE REVIEW

Cities are increasingly seen as the drivers of the national economy, and the UK Government is devolving new powers to the largest and fastest-growing urban areas. Cities also tend to have concentrations of poverty.

## Key points

- Economic growth does not always reduce poverty. Many of the most economically successful city economies have experienced stable or increasing poverty rates even during periods of economic growth.
- Increases in output or productivity at a local level are important for economic success, but have little short-term impact on poverty. Employment growth has the most significant impact. The quantity and quality of new jobs is the critical factor in reducing poverty in cities.
- The benefits of growth in innovative, knowledge-based sectors will not automatically trickle down to households in poverty. There is no guarantee that all citizens will benefit from growth in their local economy and growth may not reach all parts of a city. Cities need to be clearer about who will benefit from different local growth initiatives and how.
- The impact of employment growth on poverty depends on the sector of new employment, its quality, the characteristics of the population and local factors such as the quality of transport links.
- A balance and range of skills is particularly important in both ensuring urban economic growth and reducing poverty. Low and intermediate-level skills and the quality of entry-level jobs should be considered integral to developing a sustainable urban economy.
- Cities should not approach growth and poverty as two separate agendas. Reducing poverty brings a range of economic and financial benefits, which can be important in driving local economic growth and managing future demand on local public services.

## The research

By a team from The Work Foundation, the Institute for Employment Research at the University of Warwick, and the London School of Economics.

# BACKGROUND

There is a consensus that cities are important for economic growth. The Government is devolving powers to the largest and fastest-growing urban areas and providing incentives to encourage growth. A set of 'City Deals' have been agreed and the prospective Single Local Growth Fund will give cities more control over local spending in areas such as skills, transport and European development funds.

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Many cities also have high levels of poverty, placing considerable strain on public services, for which local authorities and other agencies face burgeoning demand at a time of unprecedented funding cuts.

## Growth and poverty trends in cities

Between 2001 and 2008, the UK cities with the strongest economies at the beginning of the period enjoyed the highest growth rates and became even stronger relative to other cities. London increased these disparities, accounting for 37 per cent of output growth (measured by Gross Value Added (GVA)) among the 60 cities in this review. Over the same period, cities with the highest poverty rates in 2001 saw the largest falls. Despite this, the poorest cities in 2001 still tended to be the poorest in 2008. For example, Glasgow was the second poorest city in 2001 (measured by benefit claimants), with 33 per cent of its population in poverty. By 2007 this had fallen to 30 per cent, yet it remained the second poorest city.

Cities have a unique and diverse range of growth characteristics, for example:

- GVA per working-age adult in 2008 was three times higher in Luton and Watford (£49,436) than in Barnsley (£16,748).
- The proportion of the working-age population with a degree is 30 per cent in London compared to only 12 per cent in Rochdale and Oldham.
- The employment rate (three-year average 2006–2008) was around 80 per cent in Aberdeen compared to 68 per cent in Wirral and Ellesmere Port.

The economic diversity of cities highlights the need for more locally tailored responses.

## How does economic growth affect poverty?

Economic growth does not always reduce poverty. Poverty in many of the most economically successful city economies has stayed stable or increased, even during periods of economic growth. In the period from 2001, London experienced some of the strongest growth in GVA per head of any UK city, yet its poverty reduction was only average.

The benefits of growth in innovative, knowledge-based sectors do not automatically trickle down to households in poverty. There is no guarantee that all citizens will benefit from growth in their local economy, and growth may not reach all parts of a city.

Within a city, some neighbourhoods with high concentrations of poverty remain persistently deprived through periods of growth. Other poorer neighbourhoods may become gentrified but this will not always create employment for existing residents, merely reflecting a changing socio-economic mix and displacement of poor households as more affluent households move in.

The link between economic growth and poverty reduction varies by cities. The influence of growth on poverty depends on the sector of new employment, its quality, the population's characteristics and

local factors such as the quality of transport links, which determine whether local residents can take up new employment.

## More and better jobs

Economic growth is made up of employment growth (number of new jobs created) and/or output growth (productivity measured by GVA). Between 2001 and 2008, cities with the highest increases in employment, not GVA, were most successful in reducing poverty. Output growth had no short-term impact on urban poverty. It is associated with wage increases at the top of the distribution but not wages at the bottom. In the long term, output growth may lead to employment growth and this may then reduce poverty.

Job creation is the critical factor in linking growth and poverty reduction, and the quality of the jobs created matters as well as the quantity. Poverty does not just affect long-term unemployed people or those furthest from the labour market. In 2011/12, more than half of the 13 million people in poverty in the UK were in a working family. This situation is likely to worsen as the number of jobs at the bottom of the labour market is projected to increase. But as mid-level jobs decline in importance, opportunities for progression will become more limited.

## How does poverty affect economic growth?

The relationship between growth and poverty in cities is two-way. Poverty reduction contributes to economic growth, bringing significant economic and financial benefits for cities. Reducing poverty:

- makes more efficient use of people's skills, knowledge and experience, and boosts productivity;
- raises incomes, increasing spend and demand in a local economy, directly benefiting local businesses;
- reduces welfare spending and demand for public services, and increases tax revenues. This means additional investment could be channelled into growth-enhancing policies and initiatives.

## What are the implications for cities?

### Leadership

Both poverty and economic growth look very different in different cities. Cities can put in place the frameworks and policies to ensure that growth and poverty reduction are better linked, and these should be tailored to individual city circumstances.

There would be a more compelling case for investment in initiatives linking growth and poverty if there was a better understanding of the economic and financial benefits of reducing poverty. Making economic inclusion part of local growth strategies should form part of a wider 'invest to save' package that aims to reduce the demand for local public services.

City leadership extends beyond local authorities. Other stakeholders, such as 'anchor institutions' (major employers with fixed stakes in a local economy), have a vital role in both increasing growth and reducing poverty. At city level it is possible to co-ordinate local stakeholders and work to a shared agenda.

### Jobs

A key issue is to what extent cities regard growth and poverty reduction as one agenda or two. Case studies highlighted the tension between the narrow focus on growth of many Local Enterprise Partnerships (LEPs) and the broader social and economic objectives of local authorities. This raises some interesting questions for local strategy development:

- There is no simple trade-off between productivity or jobs – the two aspects of growth are inextricably linked. Priorities within local growth strategies should strike a balance between creating jobs and increasing productivity.
- Cities need to develop a better understanding of who is and who is not going to benefit from different local growth initiatives, and strategies should be explicit about how growth initiatives are being linked to households in poverty.

### Skills

A range of skills is particularly important in both ensuring urban economic growth and reducing poverty. Low- and intermediate-level skills and the quality of entry-level jobs should be considered integral to developing a sustainable urban economy. While high-level skills are vital for urban economic success, a balance of skill levels is important in ensuring economic growth is equitable. Increasing skill levels for those with relatively low-level skills can both increase productivity and fill skills gaps that would otherwise hold back local enterprises.

The business model of low-pay, low-skill employers needs to be challenged to boost overall demand for a higher-skilled workforce and enable businesses to become more productive. Working with employers to understand how low-level skills can be upgraded to increase productivity and reduce in-work poverty is a key issue for local growth strategies.

### Cost of living

Cities also have an important role in reducing the cost of living, with housing costs in particular likely to rise as cities grow. Cities have control over the local planning system and can use this to increase land supply and reduce the cost of housing.

### Conclusions

Growth and poverty differ according to local context, so cities have an important role in linking policies for poverty reduction and economic growth. Some cities have seen their economies grow rapidly, but this has not always reduced poverty. Cities can coordinate policies between local stakeholders and help link economic development with skills and employment policy.

### About the project

This research reviewed evidence on the links between cities, growth and poverty and was carried out in early 2013 by Neil Lee, Paul Sissons and Ceri Hughes from The Work Foundation, Professor Anne Green, Duncan Adam and Gaby Atfield from the Institute for Employment Research at the University of Warwick and Professor Andrés Rodríguez-Pose from the London School of Economics.

### FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF. The main report, **Cities, growth and poverty: a review of the evidence** by Neil Lee, Paul Sissons, Ceri Hughes, Anne Green, Gaby Atfield, Duncan Adam and Andrés Rodríguez-Pose, is available as a free download at [www.jrf.org.uk](http://www.jrf.org.uk)

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