Technical Note 4: Economics

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TRANSPORT FOR THE NORTH

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1. Introduction

Section Overview

This paper, drafted in 2019, prior to the Covid 19 pandemic provides examples of long term trends and potential policy developments relating to this theme which are likely to have an impact on travel outcomes, an influence on TfN's transport strategy, and on environmental, social and economic outcomes across the Northern Powerhouse. The current global impacts of COVID-19 are creating significant additional uncertainty, yet the basic conclusions in this note still remain.

2. The purpose of spatial planning Scenarios—Business as Usual or Transformational?

Oxford Economics are in the process of updating the NPIER **Transformational** and **Business as Usual** scenarios originally produced in 2016, to reflect factors such as Brexit and (just as important) changes in OBR/ONS views on future economic/population trends.
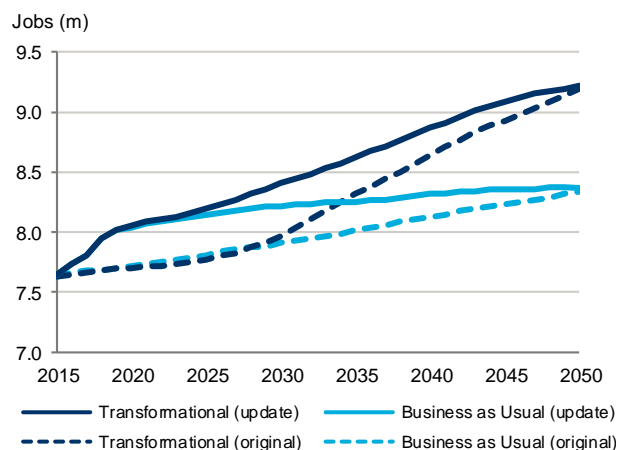
The new scenarios still show a 850,000 boost to jobs and a £100bn boost to GDP (2016 prices) although with some different trajectories. See charts below.

Jobs % growth, Original and Updated scenarios, 2015 to 2050

Jobs (% y/y)
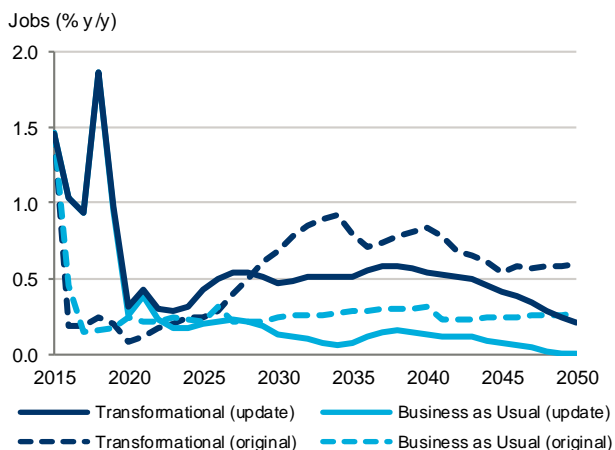
Source: NPIER, ONS, Oxford Economics

Job numbers, Original and Updated scenarios, 2015 to 2050

Jobs (m)

Source: NPIER, ONS, Oxford Economics

3. Key Drivers of Change Why the changes? What scenario is most likely? What does drive economic growth?

Simple view: To get more output you need more investment in capital equipment, plus more people to do the work. The first relies on **expectations of growth**—self-fulfilling or self-defeating expectations. The second relies on **population growth** and people's **willingness/ability to work**, which depends on wages, health, lifestyles etc. And on **transport**.

More complex view: it also depends on innovation/new ideas and arguably on infrastructure, especially, again, transport. A key issue here is likely to be **agglomeration**. People and businesses are more productive if they are closer together because of scale effects, knowledge exchange, access to common resources, reputation effects, etc.

Does this mean cities are more productive than towns which are more productive than villages? Or might transport allow connected **(Northern)** towns/small cities to emulate big cities by getting a type of **virtual or synthetic agglomeration**? 'Wider economic benefits.'

Evidence on this? Inconclusive, unfortunately. The reasons?

- **First,** both transport and innovation share a common feature: a lot produce quite low economic returns, relative to the cost of investment. Social objectives influence transport decisions (good). So do politics, and wishful-thinking (not so good).

- **Second:** benefits of agglomeration are (partially) offset by costs, from high wages/property prices to congestion/pollution. But can (public) transport address these? Or does it sometimes make things worse?

4. Another complexity. Technology

Our scenarios, including the Transformational one, may be too pessimistic on future investment. Maybe we are about to see a spurt in business investment which generates more economic growth than we project, but via **AI and robotics**. This may reduce overall job numbers, and/or it may redistribute jobs, earnings & wealth with complex consequences, by occupation, industry and location. **Hollowing out?** More people/places **left behind or scope for catch-up**? And implications for transport needs?

5. Final issue: public finances

These are highly dependent on the **national rate of economic growth**. So, if transport investment means public transport investment in an age of slow economic growth, then low transport investment is the consequence—which helps to keep the growth low. There **are** magic money trees—but it helps if you plant them first. Response: **alternative financing models?** User pays? Polluter pays?

6. Initial List of Key Uncertainties

Driver	Possibilities	Determinants/Implications
Short term: Brexit, global trade wars, etc	1 Slow-growth becomes entrenched—lasting consequences 2 Rebound	Wide range of possible projections for GDP—how to plan for that?
Business investment	1 Remains low, especially in North 2 Normal cycle resumes	Difference between low and medium growth: not enough on its own to create high growth
Labour supply	1 Low migration into UK constrains economic growth 2 Job opportunities cause higher participation & investment in skills 3 Residents migrate away	Economic drivers are powerful But also politically/culturally/socially driven—how to influence these?
Innovation & transport infrastructure	1 Continuation of past modest trends 2 Northern Powerhouse boosts a) knowledge economy b) connectivity and both produce agglomeration benefits	Can agglomeration be achieved with a dispersed northern economy? Or does it requite greater concentration in big cities?
New technology (AI, robots etc)	1 Job losses with no local offsetting local job gains 2 Step-change in economic growth benefits all	Geographical impact within the North or between North and elsewhere? Renaissance or new deindustrialisation? Impact on social cohesion?
Public finances	1 Continuing squeeze 2 GDP growth to the rescue 3 New finance models to the rescue	New political relationship with Whitehall/Westminster? Regional/local government impact?

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