THE INCOMPATIBILITY OF ECONOMIC DEVELOPMENT POLICIES FOR RURAL AREAS IN ENGLAND.

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ABSTRACT

Four different and incommensurate economic development policies currently pertain in rural England: the pursuit of productivity, well-being, endogenous development and income support. This paper describes these policies as they pertained in 2007 in different Government Departments and evaluates salient changes in Departmental positions in respect of these policies since that time to the end of 2009. The impacts of these policies, and their shifts, on rural areas are assessed.

1. Four rural economic development policies

Since at least the beginning of the Millennium in England, the Treasury, the (now) Department of Business Innovation and Skills (BIS)¹, the Department of Communities and Local Government and the Regional Development Agencies have been committed to national policies of economic growth through improvements in productivity (Treasury et al., 2006). A range of Departmental Public Service Agreements (PSAs) has determined that this should be measured using Gross Value Added (GVA) per head, using output, rather than income-based measures. The drivers here have been both to increase GVA nationally and to reduce regional disparities, both of which have been considered to have met with some success (Treasury et al., 2006).

This objective also pertained specifically in rural areas up until the end of 2007. The Department for Environment and Rural Affairs (Defra) sought to reduce regional disparities in GVA productivity by improving the performance of the rural parts of the

¹ This is the third name for the ‘economy’ Government Department since June 2007 when it was the Department of Trade and Industry. Its successor, the Department for Business, Enterprise and Regulatory Reform lasted less than 2 years.
weakest regions (Courtney et al., 2004) through the PSA 4 target (Defra, 2005). No acknowledgement was made by Defra in these performance requirements, of differences between rural and urban local authorities.

Quite separately, the same Government Departments have required local authorities, under part one of the Local Government Act 2000 (Office for Public Sector Information, 2000) to pursue economic (and social and environmental) well-being for their areas through the production of a community strategy. The economic element of this well-being should pursue ‘local prosperity’ (the Treasury and ODPM (2003), page 5) In amplifying this, the 2006 Local Government White Paper (DCLG, 2006) committed to the development of a single performance framework for local authorities, proposing that they select up to 35 performance targets from a set of 198 National Indicators (only 33 of which pertain to the local economy (DCLG, 2007) and some 70 of which have no available means of being measured (Commission for Rural Communities, 2010a) to provide flexibility in determining the nature of well-being in their locality: well-being is likely to be different in different rural areas. The Commission for Rural Communities (2008) notes that, for rural areas this broadens the scope for interpreting economic performance.

There is no clear relationship between these two notions of productivity and well-being. Of the 198 National Indicators used to measure well being (DGLG, 2008a) none of them includes any measure of productivity, and of the Treasury’s (2001) six drivers of productivity: employment, skills, investment, innovation, entrepreneurship and competition, only two are mentioned. NI 151 is the measure of the overall employment rate in a local area, and NT 174 is concerned to reduce skills gaps in the current work force as reported by employers. Essentially, productivity and well-being are not strongly connected.
In addition, specifically for rural areas, European rural policy (implemented through Defra) has for some time made *endogenous development* a policy priority. The European Integrated Rural Development Programmes of the late 1970s and early 1980s formalised this approach by focusing on the unlocking of skills and the development of communities and societies within the context of the *local* economy. This endogenous approach was considered the most reasonable at the European level in the face of inherent rural problems of remoteness and peripherality, agricultural dependence or pressures from urbanisation. The approach was consolidated through the LEADER programmes (LEADER I (1992) and II (1994)) and reasserted in the Cork Declaration of 1996. This declared, rhetorically at least, the importance of participative, bottom-up approaches to rural economic development, driven by the local community (Ray 2000).

Since this time, endogenous approaches have been the spine of the LEADER + programmes (Shucksmith 2000) and from 2008, have been incorporated into the Rural Development Programme for England (Pillar II of the Common Agricultural Policy (CAP)) through Axis IV which applies the LEADER approach in support of the other three Axes, particularly in relation to the developmental functions of Local Action Groups (Dwyer, *et al* 2008). Importantly, this endogenous approach is finding favour in a number of rural areas through movements such as the Carnegie Trust’s local asset-based development (Carnegie Trust Rural programme, 2009), the Transition Towns Movement (Hopkins, 2008) and the Market Towns Movement (sponsored by DCLG) (Caffyn, 2004).

A fourth set of rural economic development measures is encapsulated in Pillar I of the CAP (again implemented by Defra) which provides *income support* to farmers through two means – simply giving them money (direct payments) or supporting the prices for agricultural products at artificially high (above world market) prices (market subsidies). This is, in effect, the converse of pursuing productivity objectives because such direct and indirect subsidy actually discourages efficient production: it removes incentives to modernise and innovate (South West Farming and Food, 2006). It is perhaps not
surprising in this context that the value of agricultural subsidy has been greater than total income derived from agriculture between 2004 and 2007, (figure 1) and the total cost of the CAP to EU citizens is about €100 billion a year, half of which is borne by taxpayers and half by consumers as a result of higher food prices OECD (2005). Interestingly, in the context the full panoply of economic development policies for rural areas, regional state financial support for agriculture (antithetic to productivity) is approximately three times state financial support for productivity measures through the Regional Development Agencies (Curry and Owen, 2009).

*Figure 1 - agricultural support in England, post foot and mouth disease*

<table>
<thead>
<tr>
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<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>Agricultural subsidy to farmers (£ million)</td>
<td>2,759</td>
<td>2,945</td>
<td>2,996</td>
<td>2,995</td>
<td>2,960</td>
</tr>
<tr>
<td>Total income from farming (£ million)</td>
<td>2,839</td>
<td>2,556</td>
<td>2,171</td>
<td>2,303</td>
<td>2,538</td>
</tr>
<tr>
<td>Agriculture’s contribution to the economy (gross value added)</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
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Although Pillar I support payments are set to decline to 2013 through a shift into Pillar II support, they still comprised 88% of the total CAP budget in 2007 (Ward and Lowe 2007), and most of Pillar II anyway is set to remain in agriculture (Lowe and Ward, 2007).
2. Productivity and Well-being: shifting priorities

Whilst endogenous and income support measures are continually adjusted through successive reforms of the CAP (and for the former also by rural communities themselves), the Treasury Sub-national Review of 2007, (Treasury et al., 2007) has had a significant impact on priorities for productivity and well-being. Sometimes changes here have been subtle and sometimes more wide-ranging but they have caused increasing inconsistencies in economic development policies for rural areas, both between and within Government Departments.

The Review affirmed that local authorities would ensure that local economic development increases well-being in their localities (page 23), this time through a sustainable community strategy or, for county and unitary authorities, their Local Area Agreements. Such well-being should reflect the distinctive identity of the area (page 43), whilst increasing local prosperity. RDAs would continue the pursuit of growth through GVA productivity measures per head, but now though a single regional strategy, a specific growth objective and a growth focussed framework (page 93).

In this context, Defra abandoned PSA 4 and indeed any specifically rural PSA targets, and by 2008, had introduced a second order Departmental Strategic Objective (DSO) to pursue ‘strong rural communities’ (Defra, 2008a). This is measured in turn by two ‘intermediate outcomes’ (IO) which reflect both the national preoccupation with productivity and the local authority concern with well-being (Defra 2008b). The first was (and remains) supporting economic growth in rural areas with the lowest levels of performance and the second was to pursue the evidenced needs of rural people and communities through mainstream public policy – measured through a selection of National Indicators of well-being.
This approach was roundly criticised by House of Commons Environment, Food and Rural Affairs Committee (2008). Of the first IO, they felt (paragraph 30) that:

“focusing the economic intermediate outcome solely on low-performing areas is a wasted opportunity”.

Of the second IO, they couldn’t see how it could be measured for individual rural areas. Generally, they felt that the DSO overlooked the diversity of rural areas and anyway, Defra did not have policy influence over the variables in the DSO and therefore couldn’t readily influence it. The Committee also was not pleased with the relegation of rural economic policy to a DSO from a PSA as it gave other government Departments the opportunity to ignore it.

Potentially more significant for rural areas, however, the Review introduced the primacy of economic planning at the sub-regional scale. This came about for at least four reasons. Firstly, the way in which individual local authorities had dealt with economic development had been extremely variable, with some smaller (mainly rural) authorities showing little evidence of attention to this portfolio at all, or having insufficient capacity to collect evidence on which to base economic development policies (DCLG and BERR, 2008). These problems could be overcome through sub-regional co-operation between authorities.

Secondly, the sub-regional scale was felt by the Review to be the scale at which place-specific economic advantages are often present (for example, pools of labour, higher and further education colleges, suppliers and so on), which provide place-specific returns to scale (DCLG, 2008b). Thirdly, the relationship between ‘economics’ and ‘place’ needed to be strengthened because ‘place’ was where productivity drivers come together and where the life chances of individuals are played out (DCLG, 2008c). Finally, sub-regional
arrangements, where they did exist, were considered to be fragmented, confused, variable and lacking in capacity, accountability and leadership (Treasury et al., 2007).

The Sub-National Review (Treasury et al. 2007) thus proposed the development of sub-regional economic strategies through Multi-area Agreements (MAAs), first mooted in the Local Government White Paper of 2006 (DCLG, 2006). These were to be voluntary at the point of creation but, if local authorities so wished, they could establish statutory sub-regional authorities (DCLG and DBERR, 2008). These functional sub-regional areas were not that easy to define, although the Local Government Association (2007) has attempted this. The LGA work suggests, and the implication in much of the Sub-national Review literature is, that these functional economic areas as sub-regions will cohere around the notion of the city-region (OECD, 2006). This, too, has significant implications for rural areas, as many rural districts are not even in a city region. By the end of 2009, 16 MAAs had been produced across England and all cohere around metropolitan or urban areas (Morphet, 2009). As Morphet states: “MAAs have been seen as an urban approach” (page 12).

But further to complicate matters of appropriate scale, the Local Democracy, Economic Development and Construction Act 2009 (Office of Public Sector Information, 2009) now places a Statutory Duty on county and unitary authorities to undertake ‘economic assessments’ which are to be used downstream in the Local Development Frameworks of all authorities and upstream in sub-regional and regional strategies. Local authority partnerships are encouraged for the purposes of this information collection because the Act advocates that it should be collected for ‘functional areas’, which are considered to be those defined by economic geography, rather than administration. The ‘economic geography’ of rural areas remains to be defined. The sanction in the Act for not doing this information collection is a much lower likelihood of economic development support funding from the Homes and Communities Agency.
The most recent economic development volte-face has come from the DCLG. The Government’s new planning policies for prosperous economies were produced in May 2009 in a consultation paper on Planning Policy Statement (PPS) 4 (DCLG, 2009a). This paper was built around using the spatial panning system to pursue two principal objectives: increases in GVA productivity and increases in employment. Productivity was considered substantively in 23 separate places in the paper. The paper was to base national economic development policy on the premise that there were no spatial differences in productivity in England, outside of London:

“rather than being the poor relation to urban areas in terms of productivity, rural areas are in fact major contributors to the national economy on a par with all urban areas outside of London. The evidence also shows clearly that there is no such thing as a separate ‘rural economy’ – the economies in rural and urban areas are similar, in terms of the mix of businesses and employment and are closely inter-related” (page 7, author’s emphasis).

This was a curious foundation for spatial economic planning indeed. It made a nonsense of Defra’s ‘lagging regions’ policy which was based on providing special support for the 44 most lagging (relative to other rural districts) rural districts in GVA productivity terms. It also made a nonsense of the first of Defra’s IOs in their 2008 DSO about reducing productivity disparities in rural areas. It also flew in the face of considerable research evidence that charts differences in rural productivity by different types of district authority (for example, Webber et al, 2009).

The report of the consultation exercise (DCLG, 2009b) omits any reference at all to measures of productivity or their importance in influencing planning decisions, which is curious, as the finally published PPS4 (DCLG, 2009c) has also removed reference to productivity altogether, in respect of both its measurement and its influence over planning decisions. Economic development in the new PPS4 will be determined not by its
influence on productivity but (Policy E10) its ability to limit carbon emissions; minimise climate change impacts; minimise traffic impacts; ensure good design, and have a positive impact on regeneration, social inclusion and local employment. The PPS4 has changed its title from ‘planning for prosperous economies’ to ‘planning for sustainable growth’.

It is perhaps no coincidence that the Sustainable Development Commission published its significant ‘no growth’ sustainable economies report (Jackson, 2009) in between the consultation over PPS4 and its final form.

Again, this significant DCLG shift in emphasis of economic development policies away from productivity begs further realignment: the objectives of economic development agencies, particularly the Regional Development Agencies, still require the singular pursuit of GVA productivity goals. Yet ‘new’ planning policies are unlikely to be sympathetic to this precept. The new PPS4 also appears to promote a fifth economic development goal to sit alongside those of productivity, well-being, endogenous development and income support: sustainable economic growth. The Sustainable Development Commission (Jackson, 2009) considers this term to be an oxymoron.

3. Shifting priorities and their implications for rural areas

The Sub-national Review (Treasury HM et al., 2007) has an overwhelming urban orientation and does not acknowledge the particular characteristics of rural areas at all. Thus, in setting out the context for the review:

“economic restructuring gives a key role to cities and towns ..... decision-making structures therefore need to ensure that cities and towns have the necessary flexibility to develop their own economic niches” (paragraph 4.6, page 48).
In developing sub-regional plans, partnerships between the private sector and local authorities will be conducted through *Urban* Regeneration Companies who will conduct *city* summits and generate *city* business cases and eventually develop into *City* Development Companies (page 25 – authors’ italics). In determining functional economic areas at the sub-regional level, “*cities and towns are particularly important*” (paragraph 4.13, page 49). The model planning framework, too, Multi-area Agreements (MAAs), is based on precedents developed by a number of cities (Page 89) and the first MAAs were to be in place for cities by June 2008 (page 90).

In acknowledging that functional economic areas are to be based around the city-region, DCLG (2008b) nevertheless recognises that this runs the risk of residualising many rural districts, because some 25% of them are not in any city-region (SQW and Cambridge Econometrics, 2006). It maintains (DCLG 2008c) that many remoter areas are simply too small to be encompassed by sub-regional economic systems. Smaller rural councils and towns, it claims (DCLG, 2008a) are feeling particularly threatened by the city region agenda. SQW and Cambridge Econometrics (2006) also note that the functionality of city-regions appears to be premised primarily on car-based commuting. They question the sustainability of this approach particularly as a number of recent Local Development Frameworks, for example, have backed away from polices of dispersal, favouring instead, polices of urban concentration This economic development focus on the city region was of particular concern for Defra’s 44 the most lagging rural districts in case studies conducted by Annibal and Doyle (2007).

Much of this concern about the residualisation of, particularly remoter, rural areas in spatial economic policy stems from the particular GVA basis of measuring economic performance that remains prevalent in some parts of government all of the time and most parts of government some of the time. Not surprisingly, Annibal and Doyle’s (2007) survey of Defra’s 44 most lagging districts, indicates that they themselves favoured a broader approach to measuring such performance.
These calls for different performance measures for rural areas are buttressed by research evidence. Keeble and Tyler (1995) in their studies, for example, found rural firms to be overwhelmingly independent, locally owned and locally managed relative to their urban counterparts. There also is evidence that they are both younger and smaller than urban firms (Keeble and Nachum, 2002, Jarvis and Dunham, 2003) and that most rural new firm founders are in-migrants to the area (Mitchell and Clark, 1999) rather than, by contrast to urban firms, from within the locality in which the firm was founded.

But non-economic factors also have a strong influence on rural economic activity. ‘Quality of life’ factors have been noted as determinants of rural firm location since the late 1950s (Greenhut, 1956) where lower returns were perceived to be more than compensated for by pleasant environments and secure communities (Tiebout, 1957). Pleasant rural environments have acted as a spur to relocate (North, 1998) and have had an influence on levels of satisfaction in the workforce. (Johnson and Rasker, 1995). Residential motivation, too, has influenced the location of economic activity where villages are perceived as pleasant places to live (Courtney and Moseley, 2008).

This evidence would seem to suggest that many working in rural areas deliberately choose to eschew productivity goals for more endogenous ones. Courtney et al. (2004), for example undertook a series of qualitative surveys in ‘well performing’ and ‘poorer performing’ district authorities (defined in GVA productivity terms) and found a number of factors relating to the environmental and cultural quality of life to be perceived as being significant in determining broader notions of economic performance. They can lead to what Deakins et al. (2003) call lifestyle firms. In their study, they found, for example, that 86% of their sample of small rural businesses actually did not want growth. As Bryden et al. (2000), put it, rural development is something done by people rather than to people.
In this context, Slee (2008) calls for a *relocalisation* of work, energy production, food production and the use of leisure time. It is the pursuit of a number of these ‘non-growth’ characteristics that is enjoying increasing popularity amongst rural communities themselves - quintessentially sustainable development goals. Thus, ‘bottom up’ initiatives such as community land trusts (Countryside Agency, 2005), community finance solutions (Dayson et al., 2008) alternative foods, local foods, farmers markets and the like (Winter, 2003) are all naturally adopting Slee’s (2008) notions of relocalisation on the ground. Transition towns in particular offer the pursuit of many of what Richard Layard (2005) the economic pursuit of happiness in a movement that sits largely outside of public policy but is gaining considerable momentum from the ‘community up’ (Hopkins, 2008).

4. Conclusions

It would seem that because of remoteness (Curry and Webber, 2010), the desire of rural dwellers to pursue quality of life objectives and even because of the wishes of communities themselves, many rural areas might more appropriately pursue well-being, endogenous or even ‘sustainable growth’ objectives rather than those of productivity. It is perhaps unfortunate in this context to classify England’s 44 most ‘lagging’ local authority districts in productivity terms when they have some of the highest quality environments in the country: prime assets for other forms of economic development. To classify them as ‘lagging’ against productivity criteria when, since 2000 they have been instructed to pursue well-being objectives is perhaps a little inappropriate.

But rather than deciding which kind of economic development policy is most appropriate for rural areas, it is perhaps more pressing to seek greater clarity from within Central Government over which kind of economic development policy is most appropriate at different times in different rural places and at different spatial scales. Whilst DCLG has abandoned productivity objectives in the new PPS4 in favour of ‘sustainable growth’
ones, the Treasury, BIS and the RDAs (HM Government, 2009) have reasserted the primacy of productivity-driven growth as the fastest way out of recession. DCLG also is the Government sponsor of the well-being objective and through a whole raft of community empowerment initiatives (DCLG, 2008b, 2008c) also is seen to champion endogenous development approaches. Defra severally champions all four: productivity through its IO1; well-being through its IO2; endogenous development through Pillar 2 of CAP and income support through Pillar 1. The Commission for Rural Communities (2010b) appears to favour the well-being approach specifically for rural areas.

As for appropriate spatial scales, the *raison d’être* of the Treasury et al.’s (2007) subnational review was, in championing the optimality of the sub-region, that the scale of the region was too large for the planning of economic development and the scale of the local authority was too small. Yet these are the two scales that have been given renewed emphasis for the pursuit of productivity in the case of the RDAs (HM Government, 2009) and for well-being in the case of local authorities. Indeed the well-being power has been extended to an even smaller scale – the parish level – with the enactment, in April 2009, of the Local Government and Public Involvement in Health Act 2007 (Commission for Rural Communities, 2010b): a scale in the opposite direction to the Treasury’s notion of sub-regional optimality.

The resultant confusion to a significant degree stems from the nationally-centralised approach to policy formulation. Whilst policy is firmly generated and asserted at the national level it is neither horizontally nor vertically integrated. Thus at the national level there is no horizontal integration of policy *between* all government departments with a responsibility of economic development and for some, even *within* departments. From the national level, there is then no vertical integration between national departments, regions, sub regions, local authorities and now, even parishes: each scale of devolution has a different set of objectives.
Whilst these differences might appear mere technicalities to some, they are operationally problematic, particularly at the local authority level where principal accountability for the delivery of many policies lies. At this level, it is often hard to understand what priorities should be in pursuit of economic success, even harder to know when or whether they have been achieved, and with whom they are to work in partnership in the whole process of economic development.

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