

## Will HS2 benefit the North? – A resumé of the evidence

Supporters of High Speed Rail (HSR) claim HS2 will create substantial numbers of new jobs in the Midlands and North. These claims are groundless and the facts quite clear. This note explains why.

### 1. Employment

HSR on routes to London will reduce regional employment and increase jobs in London:

- DfT say **more than 7 out of 10 of the 30,000 jobs** caused by HS2 around stations **will be in London** ie not the Midlands or the North, for example Old Oak Common, in London, will generate 20,000 of the jobs. But most of the jobs will **not be genuinely new jobs** but ones associated with shopping malls that have simply moved from other areas in the Midlands and North. So it's not a net increase in jobs. HS2 Ltd also concluded this, after taking expert advice.
- DfT assume trips *to* London grow at twice the rate of those *from* London. Given most trips are for leisure, (70%), **more people and more money will go to London and so will the jobs that support this**. This outcome is what might be expected when a high speed link connects to a dominant city (and happened for example with Madrid).
- **HS2 impacts on the service sector, in which London is dominant**. So work is more likely to move to London, not away from it, as faster journey times reduces the barrier to more efficient London businesses competing directly with less efficient regional ones.

So who says this? Just opponents to HS2? No. It is actually the leading academics who had been invited to give evidence to the Transport Select Committee (TSC) on the relationship between transport and the economy:

- *Prof Mackie* (ITS, Leeds) says "For various reasons HS2 is rather **unlikely to make much difference to the north south divide**. A spatial analysis would probably show **London to be the main benefiting region**".
- *Prof. Tomaney* (CURDS, Newcastle) who did a full literature review, says "The impacts of high speed rail investment on local and regional developments are **ambiguous at best and negative at worst**'...' In countries with **dominant capital cities net benefits tend to accrue to these**".
- *Prof Overman* (LSE, London) said to the same Committee "Claims about the transformational nature of transport investments for particular areas **should be generally discounted** in assessing these benefits because they have **no convincing evidence base** to support them".
- *Prof Vickermann* (Kent) who also advised HS2 Ltd, said to the Committee about the economic benefits "I think **most of them are unsubstantiated claims**. Obviously, if you feel something is going to do good for you, you big it up. We saw that with HS1 in Kent as well, as to all the effects it was going to have. I have to say, **they are not visible to the naked eye**".

The mainstream view is clearly expressed by the Economist (3 September 2011):

*'In most developed economies high-speed railways fail to bridge regional divides and sometimes exacerbate them. Better connections strengthen the advantages of a rich city at the network's hub: firms in wealthy regions can reach a bigger area, harming the prospects of poorer places.'*

### 2. Quantified wider benefits

The evidence from HS2 Ltd is that the wider economic benefits of HS2 would be small:

- The productivity benefit from shorter journey times is the key benefit, but it's already in the business case (and is greatly overstated now that DfT admit time-on-board is not wasted)
- The **Wider Economic Impacts** of better connectivity **are relatively small**, £4-£6bn NPV (in 2009 prices), and are mainly driven by the use of freed-up capacity, but which will need a new further subsidy to realise

- HS2 Ltd asked Imperial College (Graham and Melo) if faster connectivity had any further direct benefits – they said **‘very little’ (max £8/£10m/a)** – but their conclusion was not only left out of the White Paper last year, but not even referred to in the consultation materials.

### 3. So why do Northern cities and businessmen think they will gain?

There are reasons that explain why northern cities and businessmen think they will gain:

- Cities served by an HS2 station think that their local economies will gain, but while the city may indeed benefit it is only at the expense of its hinterland. And only a few cities are proposed to have a station (London, Birmingham, Leeds and Manchester). The rest will not benefit.
- Cities and businesses are not being asked to choose between having HS2 and having other transport investment. There are major benefits related to incremental non HS2 transport improvements which would be available far earlier than if the money is wasted on HS2.
- Regional development and spatial economics are complex areas. It is not surprising people take at face value what Government tell them.

### 4. Studies reporting much bigger benefits

There are studies that attribute much larger numbers of jobs to HS2, than DfT say. We need to get the facts agreed before we get into debate about potential benefits.

The **recent Volterra Arup study (for the Core Cities)** claims that HSR would support the creation of 1 million extra jobs. This is simply untrue on their own evidence:

- The million extra jobs are from a study by Oxford Economics in which the causes of the extra jobs are entirely unrelated to HSR. Clearly it is true that if there are 1 million extra jobs (in Local Enterprise Partnerships (LEPs)), then extra journeys will need to be made to get them to work
- This estimate of extra jobs is for 2020 – before HS2 has any effect at all – except to actually inhibit transport development because some improvements have to wait for HS2! So the 1 million extra jobs would have to happen despite HS2 – not because of it!
- If HS2 is built it won't even help with journeys to work directly – it only helps through the creation of spare capacity on the existing railways. And HS2 only provides freed up capacity on the routes it serves – for 2026 this is only London to Birmingham! It does nothing for any other Core City or LEPs.

Extra capacity where it is needed on the existing network could be created well before HS2 and actually support the extra 1 million jobs that will be created (but not by HS2) in LEPs.

There are also earlier studies done for **Greengauge 21, Centro and Northern Way studies** (by KPMG) that attribute big employment increases to HSR. But these studies

- Are not on a reputable basis for forecasting extra jobs – rather than using the DfT approach they are based on an unsound ‘GVA’ methodology
- Work commissioned by the Northern Way itself shows the problems with the GVA approach and how it overestimates the effect on jobs.

### 5. Conclusion

So far from supporting the government's claims that HS2 will redress the North/South divide, the evidence (affirmed also by Oxera the independent analysts appointed by the Transport select Committee) actually suggests that **HS2 would re-enforce London's dominance.**

To genuinely benefit the North/Midlands what is needed are transport investments that improve the efficiency of their labour markets – not ones that expose them to greater competition from London, as HS2 does.