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Close the gap between London and the regions to unleash UK growth

LATER this month Chancellor Rachel Reeves will deliver her Spring Statement. It seems to be waited on more in fear than hope.

But one area of policy appears to have more or less disappeared from the agenda: "Levelling up". The phrase was a prominent slogan in the Conservative party's election campaign in 2019.

Many felt that it had more bark than bite. In practice little was done by the Tories to reduce the regional inequalities which pervade the UK.

Under Labour, the phrase itself has been cast into darkness.

To be fair, the current government is actively devolving powers to regional mayors and local authorities. But there is not very much in the way of additional resources. The changes essentially give local politicians more freedom to decide how a given amount of money is spent.

The gap in the levels of productivity and incomes between London and the South East and the rest of the country is well documented. Value added per worker in London is around 60 per cent more than it is in Wales, for example.

Reeves has made economic growth the centrepiece of her strategy. Of course, there are always short-term fluctuations in the rate of growth. But the point of a growth strategy is to increase the average rate of growth over a period of years, when the ups and downs of the business cycle even themselves out.

To this end, one might have thought that a policy of trying to raise the productivity of underperforming areas might be sensible (for transparency I chair, pro bono, two economic development agencies in Greater Manchester). This is particularly the case of city-regions. There is a marked gap in productivity and incomes between what the OECD calls

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Cities like Glasgow and Leeds have 30 per cent lower productivity than German counterparts

second-tier cities and their European counterparts. Their estimate is that, collectively, cities such as Glasgow, Leeds and Manchester have levels of output per head which are 30 per cent below their German counterparts and 22 per cent below France.

The OECD goes on to note "the productivity gap is a sign of significant untapped potential". Locating in Britain's "second tier" cities is undoubtedly cheaper for both firms and individuals than it is in London. There is therefore an incentive to do so. But in this context, these conventional market forces are swamped by the powerful factors which lead to success reinforcing success. Feedback loops make the rich areas richer and trap

the poorer areas. The economics underlying this was set out over 100 years ago, well before the phrase "feedback loop" was invented, by Alfred Marshall, who was at the time the leading economist in the world.

Marshall noted that there are very substantial benefits for companies when they locate close to successful firms in their own industry.

For example, there are knowledge spillovers. Even in the age of the internet, knowledge can flow more easily through inter-firm collaboration when the companies are located closely together. A common pool of labour force skills is developed.

These are powerful forces. A European Commission report in 2019 identified 200 "high performing" industrial clusters across Europe generated by these feedbacks in which average productivity was 140 per cent higher than in firms in the same industry which were not in clusters.

The gap in productivity between London and the regions represents a major opportunity to boost economic growth in the UK.

But to break out of the feedback loops which hold them back from realising their full potential, our city regions need a major boost from public spending, one which at the moment is not on the government's radar.

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