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Boris must decide what his domestic ‘levelling up’ policy aims to achieve

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Ryan Bourne

Boris Johnson was elected with a thumping mandate to “Get Brexit Done”. His unexpected 80-seat majority, however, meant the early months of this year saw ministers rushing to put meat on the bones of his domestic agenda – “levelling up” the country’s economy.

A global pandemic shifted focus away from this ambition. But with the next Brexit deadline fast-approaching and the prospect of a Covid-19 vaccine next year, it’s disappointing that two mini-budgets and a series of government speeches have failed to define what a levelled-up Britain would look like, or how we’d get there.

True, we have some indications of what the Tories perceive as the problem. Boris Johnson’s June 30 Dudley speech lamented the large imbalances between productive and unproductive companies, as well between London and the “neglected, unloved” parts of the country.

The Conservatives see Brexit, in part, as a cry for more to be done for “dispossessed” or “left behind” voters in the Midlands and North.

New MPs representing former “red wall” seats are understandably eager for more economic activity in their constituencies, particularly infrastructure – Boris’s favoured type of spending.

And policy levers advocated to help “level up” include more public service spending; transport investment for poorer areas; industrial policy; science, technology, and R&D funding; and even moving civil servants or the Lords into the regions.

The problem is historic attempts at state-led regional re-balancing and industrial policy like this have been disappointing.

Economist John Myers has analysed how post-war planners’ attempts to shift activity away from the then-“congested” Midlands through The Distribution of Industry Act and “population plans” resulted in bans on new factories in the then-prosperous engine of the country. This, coupled with limits on new office construction in Birmingham in the Sixties, contributed to its relative economic decline.

An assessment of post-war industrial policies by economists Tim Leunig and Stephen Broadberry likewise found that “national champions”, such as British Leyland, and “firms in aviation, shipbuilding, machine tools, electrical engineering, computers and textiles” were ultimately unsuccessful. Meanwhile industrial subsidies were “an almost unmitigated disaster”.

Policies that actually worked to improve industrial performances were instead those improving the overall regulatory, trade, tax and investment conditions.

This all raises two questions in respect of Johnson's administration's agenda: 1) why do they think an industrial-regional policy will be any more successful this time around? 2) what metrics can we judge them by?

The term "levelling up" is designed to head off criticism that one region's success means another's failure. Among OECD countries, the UK has relatively high regional inequality (GDP per head), and by far the highest sub-regional inequality, showing that inequality within regions is massive.

Boris is surely right that at least some of the inequality must be driven by bad policy, such as land-use planning laws and over-centralisation of powers. The removal of these could achieve the double-dividend of higher GDP and greater regional prosperity.

But assuming that all regional policy is win-win is wishful thinking. Aficionados such as former Theresa May adviser Nick Timothy baulk at comparisons between them and the post-war planners. But the difference between banning development in prosperous areas and taxing-and-spending from rich to poor areas is only one of degree.

Redistributing activity against the grain of market forces brings economic costs. Hence it is crucial to know what, precisely, the Government wants to "level up", and at what regional level. Is it about raising the life chances of people in struggling places towards those in prosperous ones? Or, rather, is the aim to level the prosperity of places?

The two approaches often have very different implications. A talented graduate from a poor town might currently seek to move to a prosperous area with the capital, entrepreneurs and ideas to make good on her talents. But she might find that she cannot do so easily, perhaps because of housing costs in the productive area.

A people-centred policy may focus on facilitating her move, through planning reform to reduce housing costs in Cambridge, Oxford, or the South East as a whole. A regional regeneration agenda, in contrast, might instead try to create the conditions to bring the relevant jobs to her town – a much costlier and uncertain exercise.

Economists tend to think people and markets, rather than governments, are better placed to determine where economic activity occurs. But supporters of "levelling up" reject people-based approaches. Will Tanner, director of the Mayite think tank Onward, has said: "We need to give people good schools and well paid jobs in their place, not hundreds of miles away from home."

Does the Government agree? In an astute article back in January, ^[1]_[SEP] pro-rebalancing Conservative MP Neil O'Brien hedged his bets, outlining a range of potential "levelling up" objectives – from more regional income equality, to more balanced employment opportunities, or falling gaps in subjective well-being.

O'Brien has founded a "Levelling Up Taskforce" with 40 other Conservative MPs to develop these measures and suggest policy responses. Acknowledging that places face very different

challenges, his ideas for meeting them range from altering tax provisions for expensing investment in factories and machines, right through to very specific infrastructure proposals.

For all his backbench endeavour, however, there's been little government clarity in objectives so far.

While the pandemic has understandably sucked oxygen from everything else, the lack of joined-up thinking even related to Covid-19 is telling. The Government has invested vast political capital and taxpayer funds protecting the February 2020 economy, for example, despite it being deemed dangerously unbalanced in its old form.

To achieve any meaningful "levelling up" that brings net economic benefits during this Parliament, Johnson's Cabinet needs to answer the why, where and how questions. And soon.

Ryan Bourne holds the R Evan Scharf chair for the public understanding of economics at the Cato Institute