Ryan Bourne: Here's another reason for planning reform. Ministers won't realise their post-Brexit and levelling up ambitions without it.

By Ryan Bourne

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The Levelling Up White Paper was rather circumspect about the government's planning reform intentions. After the Chesham and Amersham by-election, talk of overhauling our collectivised relic of a land use system cooled. Denials of its role in our housing market dysfunction were revived. The White Paper reflects that mood music, putting "natural beauty" front-and-centre of its ambitions, with "improved Green Belts around towns and cities" promised over housing considerations.

I've written before about what a disaster leaving our planning system unreformed would be where housing is concerned. One hopes that Michael Gove, who recognises this, is engaged in some clever realpolitik in unpicking these problems.

But rather than rehearse that case again here, it's worth touching on an underexplored aspect of our current debacle: the business costs of our land use laws. For the planning system makes it much more difficult for the Government to achieve its commercial post-Brexit or levelling up ambitions.

First, and most obviously, the way that the planning system rations land in highly productive areas shrinks the pool of talent open to businesses in those regions. Housing costs driven higher by green belts and density restrictions cut the number of potential employees willing to move, resulting in less productive workforces or smaller agglomeration clusters.

The Entrepreneurs' Network new report shows that renting a one-bedroom apartment in London is 63 per cent more expensive than in Paris and 90 per cent higher than Berlin. High housing costs in Cambridge can make a senior research scientist in the life sciences industry worse off (in terms of after-housing disposable income) than an insurance claims agent in Blackpool.

This cost of living disparity deters people from moving to where their skills might be most productively used, reducing the supply of labour for burgeoning industries. The economy is less productive as a result of this barrier to mobility.

Second, extensive land rationing in Britain raises office costs too, particularly within cities. Paul Cheshire and Christian Hilber's work used the difference between the cost of garden space and commercial office space to estimate that planning restrictions in London are equivalent to a tax on office development of some 500 per cent, or 800 per cent in the West End. Office rents in Glasgow, Edinburgh and Manchester a little over a decade ago cost twice as much as in San Francisco, while the cost in Birmingham was higher than Singapore.

This pricing out ends up pushing some economic activity overseas. Remaining businesses can either pass the additional costs of high rents to consumers through higher prices, or substitute for less space by changing how they operate. But where these options are most uneconomic, they have to squeeze other margins. Given computers, machinery, and other capital goods tend to be priced in pretty global markets, that invariably means either less investment, squeezing British wages.

Peculiar features of our planning system make domestic UK retail less productive too. Rigorous implementation of "town centre first" policies deter larger out-of-town stores that can better optimise space for logistics, storage, and stocking. Talk of the centrality of high streets suggests the government will double-down on this mistake, despite research finding these policies make supermarket chains far less productive overall, while pushing up inner-city rents as large chains compete with smaller stores in town centres.

Looking at how the rules in England were more tightly applied than in other UK nations, Cheshire found that town centre first policies reduced total factor productivity of a major supermarket by as much as 32 per cent. And the whole of the UK has much tighter rules on this than other countries such as the U.S. Though some of these costs no doubt just push activity around the country, it's clear the overall result is a far less efficient sector.

Even where UK planning rules seem liberal, the planning process throws up hurdles for innovative new developments. Repurposing agricultural land to different types of farming activity is notionally simple, even in the green belt. Yet a proposed new local winery on farmland in Kent is a cautionary tale about the difficulties associated with diversifying into new ancillary activities like food and drink processing, events, or storage.

Despite 92 per cent of the planned Kentish Wine Vault's footprint being dedicated to wine-making, the remaining eight percent of services for visitors have been the lightning rod for planning discussions. It's taken two years already to draw up plans that navigate the consultations and despite commitments to operational carbon neutrality, and the site remaining overwhelmingly within agricultural use, there are no still no guarantees of approval even now.

The sheer length of time, costs, and uncertainties associated with this collectivised process cause the planning system to harm the adaptiveness of our economy. Here is an industry (English sparkling wine) where climate change and Brexit are pushing comparative advantages and trade flows towards expansion of an industry. Yet a ponderous planning system prevents resources flowing quickly to deliver it. The same will be true as green projects proliferate.

The long and short is that the UK's current planning system constrains productive commercial activity. Yet we seem to be in denial about it. One reason is that the "levelling up" focus makes us prone to thinking about planning as guiding where development occurs rather than constraining our overall performance. Yet given land is severely rationed nationwide, buttressed with a bureaucratic, discretionary process for approving new projects, economic productivity is reduced in general.

Another reason is that we fall for what I call the pricing fallacy. The high price of land induced by current restrictions causes businesses to economise on its use, reorienting production to new methods where strictures are tightest. Then people point to actual use or patterns of land demand as indicating "need" rather than acknowledging they only reflect wants conditional on price – so wrongly concluding "there's no problem here!"

By raising rental costs and then imposing barriers that delay development, the planning system deters labour mobility, impedes the adoption of cutting-edge logistics, constrains growing industries, and prevents businesses or landowners from repurposing quickly to new commercial conditions. Its discretionary nature encourages entrepreneurs to spend time navigating property laws or gaming development rather than more productive ventures, inevitably leading to "big players" who can bear the risks to better navigate the system, to the detriment of competition.

Boris Johnson's stated goal is to make the UK a "high-wage, high-skill, high-productivity" economy. Levelling up is supposed to be about "freeing up business to deliver" around the country, per Steve Barclay. And yet we barely ever discuss the economic shackles that we've placed on ourselves due to the post-war planning blunder.

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