

Levelling up

The government has committed itself to levelling up. It wants to adopt policies that spread wealth and income more widely around the country, given the big gaps between London and the rest.

It is right to talk positively of levelling up, and not to talk negatively about taxing the rich out of London to bring London's figures down to nearer the national average. It's no help to the other cities of the UK if London is poorer. Indeed, levelling London down might also entail some loss of income and wealth for the rest of the country as well.

There are various differences between London and the rest of the country. London's productivity is higher. The capital has many more small and competing companies per 1000 residents than the rest of the nation. There is much more private sector wealth and income per person than elsewhere.

One of the curious features of the imbalance is it is much dearer to live, work and set up a business in London than elsewhere, yet more people choose to do it. They do so because they seek access to the better paid jobs, or access to the better off customers that London provides. There are many competing London restaurants, often with high meal prices, yet many of them make a good living. There are so many people in London wanting to buy a meal with the income to pay for them. With more companies and more highly paid people there is more need of lawyers, accountants, business consultants, personal advisers and the rest. In turn these service sector professionals are well paid and create more demand.

In some other cities and towns around the country there is a shortage of spending power and free enterprise. Oxford and Cambridge are demonstrating that it is possible for smaller provincial cities to attract a cluster of new investors and businesses around themes or strengths of that place. It requires ensuring there is suitable housing for those with the money to develop a business or to supply the high level talent the businesses need. As the cluster of new activities grows so the city attracts the supporting trades and services that can work with the new wealth creators.

Manchester in its prosperous past was King Cotton. Liverpool developed from a great port with many merchant traders. Birmingham was always a big manufacturing and engineering centre. Modern versions of these concentrations of talent and investment will drive wealthier and more productive cities and towns around the country. The levelling up agenda needs to make it easier for them to attract the talent and investment it takes to build a much bigger private sector. The policies needed include lower taxes, more supportive government interventions and fewer penal regulations, and a belief at all levels of government that free enterprise is a big part of the answer, not part of the problem.