

Treasury Committee

Oral evidence: Regional imbalances, HC 1666

Tuesday 4 July 2023

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Members present: Harriet Baldwin (Chair); Douglas Chapman; Sir James Duddridge; Emma Hardy; Danny Kruger.

Questions 1 - 29

Witnesses

I: Andrew Carter, Chief Executive, Centre for Cities; Marcus Johns, Research Fellow, IPPR North; Simon French, Managing Director and Head of Research, Panmure Gordon; and Jessica Bowles, Director of Strategic Partnerships and Impact at Bruntwood, Northern Powerhouse Partnership.

Examination of witnesses

Witnesses: Andrew Carter, Marcus Johns, Simon French and Jessica Bowles.

Q1 **Chair:** Good morning and welcome. I will start by asking our panellists to introduce themselves.

Marcus Johns: Good morning, everyone. Thank you for the invitation. I am Marcus Johns. I am a research fellow at IPPR North. We are a think-tank based in the north of England, in Manchester and Redcar.

Simon French: Good morning. Thank you for the invite. I am Simon French. I am chief economist and head of research at the investment bank Panmure Gordon. Prior to that, I was an economic adviser at the Department for Work and Pensions and the Cabinet Office.

Jessica Bowles: Hello, I am Jessica Bowles. I am the strategic partnerships and impact director at Bruntwood. We are a regional property company headquartered in Manchester, but we work across the regional cities of the north and the midlands.

Andrew Carter: Good morning. I am Andrew Carter, chief executive of the Centre for Cities.

Q2 **Chair:** Thank you very much for coming in and speaking to our Committee on this subject this morning. I want to start with a wide-ranging, all-encompassing question. Do we have significant regional



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imbalances in the UK? How much of a problem are they? What are the most significant regional imbalances?

Marcus Johns: Every year IPPR North publishes a report called “State of the North”, which highlights the extent of regional inequalities, mainly from a northern perspective but also looking across the country. We have done that research over a number of years now. We have found that the UK is the most regionally imbalanced large and advanced economy, looking across the OECD. That cuts across a range of metrics like productivity, wages, health, education opportunities and even exposure to air quality and pollution.

These inequalities are severe and they do impact people’s quality of life. They impact the access you have to economic opportunities. We think the productivity imbalances we have are one of the main reasons we have a national productivity problem.

Simon French: I would add to that by highlighting that, if you pick the gross value added measure per region—we have data from the ONS going back to the mid 1990s—there are only two regions in the UK that are above the national average, London and the south-east. The rest of the regions are below that. That is the starting point for your data assessment of where we are as a steady state. Looking back over the last 25 years, that gap has widened, not narrowed. This agenda is not new, but the data is going in the wrong direction.

Allied to what Marcus has just said, if we look at private sector capital, as opposed to the redistributive element of the state, that also has a strong regional imbalance. That also appears, based on my experience, to have gotten worse, not better, in the last two decades.

Jessica Bowles: The picture is quite clear from the data about output productivity and, as Marcus was starting to talk about, the outcomes for people and communities. You see this in terms of health inequalities, education, skills, unemployment and the like.

It is also quite important to see some of the imbalances within the places that we work. Within city regions across the north, you see quite significant imbalances between parts of the city regions; not everywhere is doing as well as you might expect. It is quite important to be relatively fine-grained about that. It is often thought that Manchester is done because it has a thriving city centre, but very close to the edge of the city centre you have communities with very poor outcomes and significant levels of disadvantage. There is an overall picture, but it is also important to drill down into what is happening at a more local level.

Alongside the economic imbalances, there is also a very centralised system of governance in the country. Most OECD countries have a much less centralised position and much greater local autonomy for decision-making and the raising and spending of tax. There is quite a lot going on in the regional imbalances picture.



Andrew Carter: I agree with everything that has been said. We see imbalances across a number of policy themes. We have talked about health, but there are also imbalances in life expectancy, educational attainment, both at school and in adults, and most obviously and starkly in productivity.

The point I would make is that the geography for those is pretty similar. The issue has an interrelated nature. The causal links are not clear. It is not clear which way round these things are, but they are broadly in the same place. If you are struggling with one thing, you are often struggling with another.

The second big-picture point is that, while Jessica's point is spot on, broadly the greater south-east does better than the rest of the UK. That grouping in and around London, but not only London, essentially outperforms and the rest of the country, to varying degrees, depending on where you go, underperforms. When it comes to underperformance and overperformance, the best parts are about a third more productive and the worst places are, by and large, on average, a third less productive. That is the spread around the national average.

The third thing I would say—this comes out particularly in the work we have done—is that the big cities outside of London underperform. They underperform on a range of metrics, particularly in relation to the economy. That makes us somewhat distinct when we compare ourselves to other OECD countries. Typically, bigger cities on average do better than smaller places, for reasons that we know, but in Britain, outside of London and to a degree a little bit of Bristol, that is not the case.

When we look at regional imbalances, it is the underperformance of the big cities that largely explains the regional imbalances. If we look at the north-west under-delivery or underperformance, 80% of that comes from Liverpool city region and Greater Manchester city region's underperformance. In the north-east, Newcastle's underperformance explains 90% of the north-east's regional underperformance.

My final point—this is relevant to policy—is about these disparities and our attempts to deal with them. We have been doing this for about 100 years. There is this idea that this is all really new. We have called it levelling up, but we used to call it something else. We have had these problems for quite some time. We have had some bashes at dealing with them. Some have been marginally successful and some have been less successful, but those disparities are there, which tells us something about the nature of them. They are big; in some respects they are static; and they are difficult to shift. We need to be mindful of that as well.

Q3 Chair: You have correctly anticipated my next question. This is not new news. This has been a focus of Government policy of all stripes for a long time. A number of you have mentioned the OECD. Can you point to things that other developed economies in the OECD have done to deal effectively with the regional inequalities that you all agree exist?



Simon French: I would look at the idea of clusters. The short-lived Industrial Strategy Council, under Andy Haldane's chairmanship, cited some examples of this from across the developed world in recent years. This involves the clustering of expertise, where you get a through-the-cycle commitment from public policy; private capital crowding in that public policy commitment; intellectual property; and crucially—this is something I hope we get to talk about—the human capital role in all of this. You get a pull into regions. Those are areas that have managed to buck the broader macroeconomic trends successfully.

Q4 **Chair:** What specific steps do these places take?

Simon French: To some extent, this is not something new in terms of the commitment to particular industries and regions. It is commitment over a long-dated period. What is clear from where these initiatives have failed and succeeded is that the specific steps have been tried in the UK context, but the assessment seems to be that they have been tried and quickly ditched. Therefore, people making decisions about where to reside and where to allocate capital on a multi-decade view do not see the commitment to a particular hub as surviving a change in the political weather.

Q5 **Chair:** You would like a long-term focus on particular clusters and capabilities. Does anyone want to add anything different to that? Do you have examples of things that have worked in other OECD countries? Marcus, you are nodding your head.

Marcus Johns: When we have done international comparisons through the research that I mentioned, we have also looked at the centralisation of power. We find that the UK is also the most centralised country of the comparable countries in the OECD, those countries that are similar in terms of our population size.

That is one of the main reasons we have not seen significant progress on some of these embedded and structural inequalities. We have tried to marshal this from the centre, whereas other countries that have done this more successfully are devolving these sorts of things. They are devolving the powers that allow for local policy integration and the addressing of discrete local barriers.

The second thing we see, similar to Simon's point, is long-term sustained investment at scale that survives political change and is prevalent throughout the business cycle.

Q6 **Chair:** When you say "investment", do you mean state funding?

Marcus Johns: We find that both public and private investment is significantly higher in countries that have more successfully levelled up than it is in the UK. When we looked at the rankings this year, if the north was a country it would have been above only Greece. The UK overall was at the very bottom of that list in terms of total public and private investment.



When we look at places like Germany and the steps it has taken, state investment has led this in some ways, particularly devolved investment to the regional governments to invest in levelling-up-type activities, but that has also then crowded in private investment. It has put the underpinning infrastructure in place that then attracts further investment from the private sector. That is something that is happening well internationally but is not happening to the same extent in regions in the UK.

Andrew Carter: I have two thoughts on that. First, some countries have a deliberate approach, where the Government are supporting places to adapt to the new economy. They are very deliberately thinking about new economies and particularly, in a sense, how cities adapt and evolve from what they previously were, which was heavy manufacturing, into services-oriented activities. That is the reality of urban areas not only in this country but everywhere else. More successful places have made that transition better than others. As a country, we sometimes prevent some of that adaptability from happening by harking back to the past.

Secondly, we have had a set of policies on the land use side that have deliberately constrained the growth of our urban areas. There have been many good reasons for that, but nevertheless the sum total of that is that our cities are smaller and less functional than they would otherwise be, if we had taken a slightly different approach. There are benefits to a constrained growth model, but there are definitely drawbacks as well. We need to be mindful of that.

Jessica Bowles: I just wanted to pick up a specific point around R&D investment. That is much more evenly spread in Germany, for instance. It is also much more targeted on near-market research and the commercialisation of research and on creating structures and ecosystems within cities and city regions that can harness the IP and innovation that is happening in those areas and keep it within the country rather than having the great ideas and research coming out of universities and going overseas.

We have been doing quite a bit of work in Greater Manchester to look at how you strengthen that ecosystem so that R&D investment, in both the public sector and the private sector, is really generating what it can within the city region and across the north.

Q7 **Sir James Duddridge:** Can I just check in on this concept of centralisation and decentralisation? It strikes me that, in the UK, we are centralised and then we are devolving. In some of the OECD countries you are mentioning, they have always been devolved, whether it is the Länder in Germany or the French mayoralty. I am sure there are other examples. Are there any good OECD examples where they have centralised and successfully reseeded—whatever you call it—local government or regions?



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Andrew Carter: None of this is perfect. You are right. That is a really important distinction to make. In many respects, when we look for examples, we are essentially describing steady states, in the sense that they have always been like that, to varying degrees.

What we are trying to do in this country is go from one system to the other. It is the transition from one system to the other that is problematic for us. Once we get to the end state, you can feel comfortable that places will flourish, et cetera, but it is difficult to get from one thing to the next.

These are all at the margins, but you do see it in other places. In somewhere like France, they have gone from a relatively centralised position to a less centralised position by empowering localities at different scales. France is still centralised, all things being equal, but they have gone through that. Poland is another interesting example. Through accession and development, they have gone through some of this decentralisation approach.

There is a particular piece that we looked at recently about Ukraine. They are in the headlines for different reasons now, but, preceding the situation in which they find themselves in, Ukraine went through quite a substantive reformulation of the state. Particularly, they gave more power, responsibility and authority to the localities or provinces of Ukraine through their local government system.

There are some examples, but what I would echo or reinforce is that the question you ask is the nub of it. How do we get from A to B? We can describe both, but going from A to B is a difficult challenge, which involves quite a lot of thinking around trade-offs, dilemmas and balances.

Q8 Emma Hardy: Good morning, everyone. It has been a really interesting session already. I want to ask a bit about social mobility and then about remote working. To begin with, is it easier for people to be socially mobile and move up the income ratings if they live in London or other urban areas?

Jessica Bowles: What we are seeing within the northern cities is that, where you can create enough jobs and a sufficiently vibrant economy, you are going to be able to do the things that help people move into and be connected to those jobs and have more opportunities. It is undoubtedly more difficult in areas where there are fewer opportunities and fewer jobs. That is a natural economic phenomenon.

We have seen some quite interesting evidence from Manchester. I am sorry that this is another Manchester example; it is just the place I know best, and it is where we are starting to get more evidence coming through. Where it has created strong transport connections across the city region, we are seeing it outperform other city regions in terms of productivity, not just in the city centre but in those outer-lying areas.



The connections between places are crucial for supporting social mobility, but that is not enough on its own. You also need to have businesses and action between public sector and private sector that supports those pathways for people to be able to develop their skills and have more opportunities. The answer cannot be everyone leaving where they live and going to these centres. That would denude the places that sit around the cities.

As a business, we have been traditionally working in city centres, although we have always had some activity in outer-lying towns, but we are now much more focused on town centres and the regeneration opportunities there to support communities, really thinking about what those communities need so they can live and work well and create a heart to those communities again.

Q9 Emma Hardy: I am pleased you mentioned moving and not always having to move. I will open up to everyone else in a moment, but one of the possible solutions that is given for social mobility is to make it easier for people to be geographically mobile, to make it easier for them to move around the country. Would you agree with that assessment? If we want real social mobility, should we let people move to London or wherever else? Do you see an alternative way to deliver real social mobility?

Jessica Bowles: When I started working, which was 30 years ago, you went to London because that is where the cluster of good jobs was going to be. People were moving in one direction at that point. That is not enough.

Over the last 15 years, we have seen a real shift in the regional cities. Many more jobs are clustering there. You can start seeing not just your own first job but then the next job and your whole career pathway being in those cities. I moved to Manchester 15 years ago. There are real opportunities in these cities. I have seen that shift over this period.

This connectivity question is really important. We do not think anything of traveling an hour to get to a job in London. An hour in the north does not take you very far on public transport, and that is how most of us travel. I was absolutely shocked at the lack of physical mobility in the northern cities. That has not changed enough in the last decade and it really needs to accelerate.

Everyone is going to be talking about the Elizabeth line, but that is a piece of infrastructure in the south that would reach from Hull to Manchester. We really need to be thinking differently about how we connect cities to cities and towns to cities in the north.

Simon French: If I can link your question with the Chair's opening question on productivity, clearly the pre-eminent public policy challenge of our time in the UK is raising aggregate productivity. I posit that we are



probably on the cusp of a break higher on productivity after 15 years of really bad performance.

One of the three tenets of why I am more positive than consensus—certainly more so than the Bank of England and the OBR—on productivity is the ability to work not entirely remotely but in a flexible way, remotely and at distance. That is partly an unintended consequence of the pandemic on labour mobility and partly something that was going to happen anyway because of technology change.

In effect, what we have done—I started my career as a labour market economist—is increased the potential hinterland from which an employer can source an employee, if they only have to be in situ two to three days a week. The pandemic has opened up a societal acceptance of that. If it is well curated, that is the first reason productivity might be better going forward. I do focus on the fact that this does need to be carefully curated. There are plenty of vested interests out there that are looking to push back on this for a variety of reasons.

There are two other things, if I can quickly go through them, that supplement the productivity picture. Higher interest rates will inevitably lead to more focus on the better allocation of capital. Some economists call it the zombie company hypothesis. Today, the cost of capital for private companies is probably 8% to 10%. That focuses the mind rather more. What that does in terms of asset values is probably going to be disproportionately focused on London and the south-east, where asset prices have gone up the most. It becomes quite a considerable headwind.

In terms of bringing us back to the theme of today, regional rebalancing, does that adjustment to higher interest rates disproportionately hit London and the south-east, which have been the big beneficiaries in this three-decade-long decline in interest rates? Yes, it does.

The final one is tangential to the flexibility and labour mobility point. Living through the pandemic led to a lot of companies that were quite analogue in terms of their economic model having to become digital overnight. Ahead of the pandemic, we knew that some of the most deprived and economically least productive regions were those that were least digitally engaged in terms of their economic model. Out of necessity, over the course of a few weeks at the start of the pandemic, they had to gather data on their consumers, embrace remote working and engage with digital skills.

Will that have a legacy going forward? I certainly hope so. I expect that it will. We are not going to see it in the productivity. We certainly have not seen it in the productivity data thus far. If you manage to curate those transitions quite well, does that present a macro-improvement in the productivity picture and a rebalancing in terms of where growth can be realised in the UK? Yes, it does.

Q10 Emma Hardy: That is really interesting. I am going to dig into remote



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working again with you in a moment, but I am just going to bring in Andrew on this geographic and social mobility question.

Andrew Carter: You asked specifically about London, but we can generalise to more dynamic and more productive cities. What do we know? In more productive and more dynamic cities, someone with low skills is 20% more likely to be in work than out of work. The dynamism of the economy generates opportunities. Even if you have very few skills, there are more opportunities available to you, which is Jessica's point.

In many of our places—I am not going to name any at this moment—there is a deficit. We have a demand problem, not a supply problem. We have plenty of people and not enough good jobs for them. We have to think about that. That is my first point. In more dynamic economies, if you have few skills, you are still more likely to be in work.

More particularly, if you are in those dynamic places, you are 30% more likely to be in a medium-skilled or high-skilled job. The career progression shows that. If the economy is more dynamic, you are more likely to be in work and you are more likely to be in a "better" job. We need to think about the dynamics between overall growth even within a place, and then accessibility and distributional issues. We should not think of those two things as somewhat separate.

My final point is particularly germane to London. If you look at the increase in educational attainment by free school meals pupils, it is off the charts. We do not talk about this enough. We do not fully understand why it is. It is partly a cohort effect as much as an intervention effect, but that is not the point. There is radical and quite significant improvement for those that are disadvantaged in London relative to everywhere else in the country.

My final point is a but—a big but. In terms of social mobility, all of those gains are, by and large, washed out by house prices. You are more likely to be in work if you are in Cambridge, and you are more likely to be doing a better job, but the house prices wash out all of the wage gains you get, all other things being equal, though it is not quite as simple as that. When we think about different dynamics and different levers, cost of living interventions, which are not typically economic, will have economic effects as well.

I have my own views on remote working, which may be similar or may be different.

Marcus Johns: Just to add another perspective on the point around house prices, when we think of the concentration of economic opportunity in the greater south-east, particularly related to jobs in London and the fact that large swathes of young people are attracted to start and develop their careers in London, without having alternative poles of economic opportunity that people can be attracted to, we are concentrating a lot of



demand for those jobs in the places where those people want to live, which causes that upward pressure.

One of the things about regional rebalancing and creating additional poles of economic opportunity is that it can relieve some of that pressure, which would also improve social mobility in London. Poverty is much higher in London because asset inflation in terms of land and house prices has a really big impact on cost of living, which is not felt elsewhere, whereas poverty in other parts of the country is often driven by a lack of access to economic opportunity. It is the other side of the same coin.

Chair: We will be asking more about housing as we go on through the morning.

Q11 **Emma Hardy:** Simon, returning to remote work and the argument about productivity, we sometimes read the counterargument that productivity is weakened by remote working. I would be keen to hear your thoughts on that. Can social mobility be impacted by increased hybrid or remote working? The focus for years has been on moving businesses into areas like Hull, where I am from. What could the impact be on productivity and regional imbalance if you were moving in remote jobs instead of businesses?

Simon French: In terms of the evidence we have thus far on the productivity impact of remote working, an interesting paper came out in the last few days by Nicholas Bloom from Stanford University, who is probably leading the analysis of the productivity impact. That paper finds that flexible working has a neutral impact except in the situation where it is an entirely flexible remote operation. Those intangible things with which we are all familiar, the slightly cliché water cooler moments, have an economic cost and seem to be picked up in the data for businesses and workers who have embraced entirely remote working.

The idea of flexible working in which, as I said a couple of questions ago, you go to a hub close to your place of residence two to three times a week but you are not required to be there five days a week seems to come out in the data as having little impact on productivity. Therefore, armed with this information, companies will presumably embrace it. If they do not embrace it, they are unlikely, in a competitive labour market—if we assume there is a competitive labour market—to be able to attract the best talent going forward.

That is on the productivity piece. It is pretty neutral for mixed working or hybrid working, and there is a negative effect from entirely remote working.

In terms of the impact on social mobility, clearly there is an arbitrage opportunity. I work in financial markets; I love arbitrage opportunities. If this is embraced in greater numbers, areas with lower property prices—I am mindful that we are coming on to property later—can arbitrage the



opportunity by, in effect, offering workers to other hubs. You mentioned Hull; you could think of Leeds and the broader Yorkshire and northern conurbation areas.

People can arbitrage the opportunity of living with the cost of living in Hull and working in Leeds, Bradford or Sheffield because the connectivity is there. There has to be both digital connectivity—

Emma Hardy: Yes, and physical connectivity.

Simon French: Yes, there has to be both. There is the potential for a lever to push against what has been a longstanding multi-decade story in UK social mobility.

Q12 **Emma Hardy:** That is really interesting. Is there a perception that, if you are only having to travel physically into work two or three times a week, people are willing to travel greater distances? That is one of the things I have seen anecdotally. If people live in Hull and get a job in Leeds, they will move to Leeds. If you are only having to travel into work two or three days, is there an argument that you could travel into work from a greater distance?

Instead of focusing on relocating businesses, what would be the impact of businesses recruiting in areas they have never recruited before, in terms of productivity and regional imbalances?

Jessica Bowles: Can I come at this from a slightly broader perspective? It is probably a bit too soon to know the long-term impact of remote working and even hybrid working on productivity as a whole. We think there is pretty long evidence about the agglomeration impacts and benefits on the economy of dense connections between businesses and between people within the labour market, which is related to the way they can generate ideas, the way they can generate businesses and the productivity increases that go alongside those things.

There are undoubtedly personal short-term benefits for people if they decide to work from home in terms of their flexibility, their quality of life, the cost of transport and the time they spend on transport. It appears that, as people start working from home, they do give at least some of the additional time they gain from not commuting to their businesses. Whether that translates into real productivity gains for the business in the long term I very much doubt.

We are starting to see people coming back into business more because they get more stimulation and more activity is happening. In some cases they feel it is better for their health and wellbeing to be around people, particularly young people who are working with difficult conditions.

Q13 **Emma Hardy:** Could remote working reduce regional imbalances?

Jessica Bowles: I am not convinced that people are going to travel longer distances across the country, with the challenges transport gives



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us at the moment, even for two or three days a week. That move to Leeds will still be quite a big pull. It is not as straightforward as jobs being much more distributed around the country even though businesses are clustered in particular places. I am not sure I am seeing that in the pattern now, but there are others who have greater data on that.

There is a really important factor here, which is about how towns, cities and places all think about what it is they can grow. What can those cities grow? How do they generate good-quality jobs? I know Hull is doing some brilliant stuff in that space.

Emma Hardy: Yes, on green energy.

Jessica Bowles: Yes, exactly. This is about how you support the growth of the industries that are there, and how you build on the specialisms and particular strengths of these places. Everywhere has them. Some of that is about connecting to the nearest big city and getting the benefits from that. Some of it is about really digging into what you have and being supported by national Government and local government in doing that.

Andrew Carter: I agree with Simon. The evidence is mixed on the impacts. In part, we do not have very much evidence because we have not been doing it for very long anywhere in the world. Remote working is at the margins. Even during the pandemic we got up to maybe 40% of some people working at home fairly consistently, but those numbers are beginning to shrink already. The evidence is not there.

Again, I agree with Simon that it is inconclusive. Some suggest that there is a productivity hit; some suggest it is neutral. I would go back to the original point. The country has a massive productivity problem. If remote work is not increasing productivity significantly, we are in a steady state. That is probably the way I would think about it. Remote work is part of the steady state. It is not going to give you the productivity uplift we desperately need in this country because we have fallen off a cliff.

Within that, I would desperately and deeply worry about the younger people coming into the labour market. This is your social mobility question. Undoubtedly, when you look at the evidence, they benefit from face-to-face interaction, particularly with their seniors and with their peers. The more remote working we do, the more we inhibit their ability to learn, develop and find careers themselves.

We have looked at all the analysis. We worked with Rightmove on all of this. 80% of the moves that were induced by Covid were roughly either within the same place itself or, at the very most, within the same region. We all read the newspapers. The *Times* said, "Look at these people moving to Cornwall. They used to live in inner London and now they have this mansion in Cornwall". The reason they wrote those stories is because they are exceptions; they are not the norm.



Most people stay. That was the same before the pandemic and it seems to be the same afterwards. There was a slight shift in between when we were in lockdown, but most moves are within someone's own region. Particularly, if the people living and working in dynamic and prosperous communities move out of those places, they go to "nice" neighbourhoods, towns or villages. They reinforce the pattern of going from nice, as they define it, to another place that they define as nice. They do not go from nice to not nice.

Part of the levelling-up challenge is about how we stimulate economic activity in places that are currently struggling. We do not see any evidence, of any magnitude, of the most productive and dynamic workers moving to very unproductive places.

In a Hull context, you want to think about what is going on between Hull and East Riding. That is probably it in terms of thinking about this. It is not like people are suddenly going to move to Hull and work in Manchester. There will be one or two, but those are the numbers we are looking at. It is one or two. Transport will help at the margins, but not massively. You have to think about these things at different scales. I am sorry; that was a long waffle.

Simon French: I just want to add that there is a dynamic way of looking at this and there is a static way. Andrew has explained very fairly the dynamic one. The people who are already in the labour market, often people who are in services careers, who are pretty advanced in their own career and development, have been the big beneficiaries in terms of the dynamic change of the adaptation to remote working.

Then we have the cohort coming through. Maybe this is my failure, thinking too much as an economist rather than as a human, but let us imagine somebody coming into the labour market at 16 or 18 in Hull who is considering whether they need to relocate to Leeds, if there is a high-value job in Leeds. In 2019, they probably had to commute five days a week. It is now acceptable for them to commute two to three days a week. They can harness that potential.

This is not going to affect everybody, but policy shifts happen at the margins. A number of those people are going to take that aforementioned arbitrage opportunity of a lower cost of living, through housing stock and other things, to remain in Hull and take a job in Leeds. It is not transformational, but the cohorts coming through that are making that calculation are going to be very different to the people who thus far have taken advantage of remote working, moving from nice communities to other nice communities, generally being more senior and more at service-based companies, which does very little for social mobility.

Q14 **Douglas Chapman:** I just want to say that I do have a vested interest in this because my own constituency has been nominated in the last year to become Scotland's eighth city. We are having lots of discussions now about how to take that particular project forward.



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I will start with London because it is a major economic driver for the whole of the UK. I want to ask about London's position as regards other global cities. London is probably the one global city we have in the UK. Manchester, Glasgow and so on are more regional centres.

When I was going through Andrew's website, I noticed that you had a very good blog on whether London was the goose that has stopped laying the golden eggs. There seems to be a drop-off in terms of productivity in London and the south-east, although it is still outperforming the rest of the UK. Is that drop-off in productivity in London a problem that we should be worried about?

Andrew Carter: We should definitely be worried. That is not a London point. It is simply a fact that London is 25% of the national economy. It produces about 33% of the taxes for the nation. Whatever happens in London, for good or for ill, has an effect. If it goes well, that is good; if it goes badly or less well, that has national implications. We should be mindful of London in that context, and it is really important to have that in mind.

You are right in a sense. If you look at when productivity went into reverse, it happened after the great recession. This is when it really seems to have started, particularly in London but not just in London, where we have seen productivity flatline. It is around the great recession. It was happening before other things that have probably made it more difficult. We can possibly get on to them. Nevertheless, it happened from around 2008 onwards.

Our estimates suggest that about 40% of the productivity slowdown at the national level can be attributed to London. That is quite big. That basically takes the UK from being a relatively strong performer before the recession, compared to comparable G7 countries, to one of the worst performers in the G7 after the great recession.

That is just an artefact of London being a very big part of the company, but it also goes back to the Chair's point earlier on. Regional imbalances have national implications in this country, in some respects more so than in many other countries because of the dominance of one particular area and its significance for the national economy.

Q15 **Douglas Chapman:** Did anybody else want to come in or does anybody else have a contrary view?

Simon French: In terms of London's role in attracting inward migration, that composition of inward migration to London has changed pretty fundamentally since 2016. That is now what I would describe as the sand in the gears of the labour market. On a pure numbers basis, London is still attracting people both from outside the UK's borders and from within the UK. There is a pull. Particularly from outside the UK, have the countries of origin and the underlying skill sets changed? Does that harm the matching function for London-based professional services businesses? Yes, we are hearing that quite a lot at the moment.



- Q16 Douglas Chapman:** I am just thinking about London being the goose that has stopped laying the golden eggs. Does that have an impact on other cities outwith London and the south-east in terms of what their ambitions might be for the future and how they grow their own regional economies? Does it have an overall knock-on impact or effect?

Andrew Carter: There are direct and indirect effects. That is the way to think about it. It is clear from the evidence that London's poor performance since the great recession has not benefited other places. In a sense, because London has done less well, other places have not done better. You have to think about it in that way. It is often phrased as, "London does well at the expense of other places". I am not convinced by that argument. The country does better when London does better. We should think about that.

Indirectly—this goes back to London's role—the poor London performance essentially makes the British economy smaller than it would be otherwise. It makes the Exchequer less rich than it would be otherwise, which is partly the indirect mechanism. Revenues generated in London are rightly redisbursed across the country through expenditure and investment. That certainly benefits other places.

The squeeze that results in the national position is partly why we see decisions about investment being made or not made. The overall size of the pie is somewhat smaller than it would ideally be if London was better. That is completely separate from the need for Manchester, Leeds or Birmingham to be much better than they currently are. We think we can get there. Again, that would not be at the expense of London. To answer your question, we are poorer as a country because of London's underperformance.

- Q17 Douglas Chapman:** The figures we have seen here suggest that the Treasury loses out on somewhere around £18 billion in revenue because London does not perform at the same level as Stockholm or Paris.

Andrew Carter: Yes. That is something we have shown. That is per annum. That was a one-time hit. These numbers are large. If we have got more cash, we can do more things with it. Whatever we want to do with it, we have more cash to do it.

- Q18 Douglas Chapman:** The other figure was that £18 billion is four times what we are spending on levelling up. We could do four levelling up programmes if the Treasury were so minded.

Simon French: If I can add to that, Andrew rightly links this back to the great recession and the global financial crisis of 2008. If you look at the pound's performance since 2008, there have been two big devaluations. There was a devaluation in 2008 as we right-sized our financial sector and had a sluggish recovery by global standards. Then there was a subsequent 10% devaluation in 2016 with the Brexit vote.



If you think about London and attracting talent—I come back to human capital—talent can locate itself anywhere in the world. The purchasing power of a London wage in sterling terms has faced two big devaluations in a 15-year period, which has affected the relative attraction of London to talent that can locate itself in many cases anywhere in the world. Across that period, the purchasing power of a sterling wage is 20% to 25% lower. That is a big headwind to the London economy.

Q19 Douglas Chapman: Jessica, you mentioned Crossrail and the Elizabeth line. At the previous session I attended with representatives from the Treasury, I was asking them about the £18 billion investment in Crossrail. I asked them which other parts of the country had received a similar investment in their transport infrastructure. Of course, the answer is nowhere.

In your experience, how much would a huge infrastructure project such as that create a more vibrant and successful economy in the likes of Manchester, for example, which is an area you know well?

Jessica Bowles: I am going to answer that question and give you some thoughts about how and why you got Crossrail and why you do not have that infrastructure in the north. If we can connect cities more closely together, we will increase the labour markets and the opportunities that that come by having more closely connected cities.

HS2 is another piece of infrastructure. What we do not often think about is the fact that HS2 is not about fast journeys to London; it is about creating capacity that has to be created because the west coast main line is currently full. If we do it right, we will free up the rail network that exists and increase the ability to have better commuting into the cities. There is a real opportunity to create a much more dynamic economy through a more dynamic transport network.

I worked in the Department for Transport many years ago. On Crossrail, we took a really long-term view: "This is what we are going to do, and this is the infrastructure we need". We took a really difficult and expensive overall decision, but it was one that needed a very long-term commitment to it and one that will create very significant payback over time. I can let the Committee have the figures we have done across the north on the value that can be created and generated in GVA terms. It also has short-term benefits in terms of construction jobs and an immediate uplift into the economy.

We need to have the ability to take a very long-term cross-Parliament view about what infrastructure is required and how we will do it in a way that is fit for the very long-term future. My concern is that we will make very short-term decisions and value-engineer things that we are going to live to regret. If you look at rail infrastructure across the country, it is 200 years old in many places. We need to set things that are going to be there for a very long period of time and that do impact on the economic geography of the country.



Marcus Johns: We certainly underinvest in transport infrastructure when compared to our international peers. The north of England has a polycentric nature. It is made up of multiple cities. There are similar regions in Europe, places like the Randstad in the Netherlands or North Rhine-Westphalia in Germany. They have used transport connectivity to create quite robust and productive economies that have responded to deindustrialisation by using transport infrastructure.

The north of England has not been able to respond to deindustrialisation in that way. If we were to look at something like Northern Powerhouse Rail, which could connect the different centres that make up the north of England, there would be really significant productivity benefits. There would be social mobility benefits and access to broader labour markets, which could strengthen the economies of the cities in the north and many of the towns that are along the way, such as Bradford.

We underinvest. We have not been able to get there. I would really concur with the point Jessica made about the short-term nature of how we are making these investment decisions. If you think of the past decade, if the north had had the same level of investment per person as London, it would have been worth £86 billion. That is multiple iterations of Northern Powerhouse Rail that would fit into that envelope.

We fail to take into consideration the transformative impact that investments like Northern Powerhouse Rail could have. It is not just about the direct observed productivity increases. It is about the things that we do not know could change if we were to put in place such transformative infrastructure.

Q20 Douglas Chapman: We are having lots of discussions just on now on the impact of Brexit. It is something that is not going to go away in terms of where we are with cities and—this was part of the discussion this morning—rural areas as well. When it comes to Brexit, where are the big problem areas in terms of developing cities? What impact is Brexit having on rural areas and their economic development and wellbeing? It is a nice little political question to end with.

Marcus Johns: When we looked at what the potential impact of Brexit could be in 2016, we identified that there were regional inequalities in how that impact could play out because of the industrial structure of places. For instance, we identified that the north-east was particularly vulnerable to changes in the supply chain.

Looking ahead, in many ways it is about the shape that the relationship takes and what barriers are or are not in place that will have an impact on regional inequalities. Something that perhaps could be considered in the future is the way in which we are listening to local places, understanding what barriers they are experiencing locally, and taking that into consideration when we are making some of the decisions about what those international relations are going to look like.



Simon French: I would just say that the initial analysis of the regional impact of Brexit suggested that the areas with more intensive goods manufacturing sectors would be disproportionately affected by the potential frictions with the export market. Events have slightly overtaken that, with the broader onshoring of capacity and strategic supply chains. That is partly the legacy of the pre-pandemic geopolitical tensions between the US and China and partly a legacy of the pandemic.

Bolting those two together, there is no strong regional impulse as a result of leaving the European Union that is disproportionately felt in the regions versus London and the south-east. As I have already mentioned, London and the south-east is more reliant on imported labour. That compositional change is a big friction for the London and south-east economy. That probably almost entirely offsets any non-tariff barriers and the impact of less trade volume taking place and the UK becoming a less trade-intensive economy.

Q21 **Chair:** Simon, you have referred a couple of times to this research about the change in terms of the London migrant mix. Do you have any actual published research you could share with the Committee on that?

Simon French: I can send you that.

Chair: If you could follow up in writing, that would be really helpful. Thank you.

Q22 **Danny Kruger:** I am going to talk a bit about devolution and ask you guys some questions about that. Let us take it as read that we need more of it and we are chronically overcentralised. I completely agree with that. It is worth noting that there does not seem to be greater political clamour for great devolution, whether in the cities or generally. It is not politically salient. Colleagues on my side of the House do not detect a huge appetite for it, which is interesting. If anyone has any reflections on public opinion, I would be interested in them.

My first questions to you are around the level to which we should be devolving. This is slightly picking up on James' question about whether we would start from here. Historically, other countries became a unitary state from petty city states or principalities. I am thinking of Germany, Italy and to a certain extent the US as well. We have been a unitary state for 1,000 years and then have recently attempted a little bit of petty devolution.

My question is related to the public opinion point. Do we devolve to economic geographies that nobody understands and feels any personal affinity with but intellectually we all recognise make sense—the functional economic areas—or do we devolve to the places people know the name of and identify with? If you ask a German where they are from, they say “Westphalia”, “Bavaria” or somewhere, which happens to be the polity.

No one says they come from the west midlands or the north-east. They will talk about their town, their city or their county. How do we reconcile



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that challenge? That is my first question to you. I really believe in devolution. I would love to see more of it in England.

I am sorry. This is a rambling question. Respond in any way to anything I have said. The second part of my question is about county deals, which is something the Government are pushing. I like the sound of them. I am from Wiltshire, which does not have a major city. There is Swindon, which is a separate unitary. I like the sound of county deals. Could counties be meaningful objects for greater devolution? Could it even go beyond that to the very local, the places people really do identify with?

Anyway, that was a rambling set of questions for each of you to pick up in any way you like.

Marcus Johns: On the public perception around devolution, in part the issue around the clamour for devolution is that we are using the word “devolution”, which is largely meaningless to your average person. When you talk to people about agency, power, the ability to shape the place they live, things are different.

Research that IPPR has done has shown that there is a drop-off in trust in the political system as you get further away in space from Westminster. We have done that through polling. We have identified similar trends in terms of the places that are most likely to benefit from levelling up. If a place is at the sharper end of regional divides, there is more support for a radical reimagining of how governance works.

We have done some work, which we will be publishing later this year, in and around a number of communities that would benefit from a levelling-up programme—places like Hastings, Stoke and Redcar. One of the themes we heard from speaking to people in those communities was about agency. It was about a sense of powerlessness over where they live, with this buffeting and the winds of economic change having not necessarily benefitted them, and they feel like they did not have recourse to shape that, which is one of the reasons, when we talk to these people, we talk about empowering local communities. There is more of a clamour for that, but perhaps the word “devolution” is just slightly inaccessible.

Andrew Carter: In terms of the clamour question, we did some polling before the mayors were introduced in the first instance, not from the public at that point, but from the business community. They were overwhelmingly in favour of having a mayoral system so they could understand who was running, or at least responsible for, their patch. That is publicly available.

We have also now done several rounds of polling. If you do a representative poll, if you ask the people of Greater Manchester and the people of the Tees Valley whether they know they have a mayor and whether they can name them, 65% of them can. When you ask them if they can name their counsellor or even their MP, dare I say it, those numbers are materially lower. The public are aware of the fact that in



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some places they have mayors. There is something to build on there and also, when you look at turnout for mayoral elections, it increases every time we go around. Every round we have, we get more and we have only done two rounds in some respects. I am confident that those numbers will further increase, which is a reasonable test for civic engagement, but not perfect. That would my first point.

The second point is on scale. Scale does matter and it matters depending on what services or what things you are thinking about devolving. To take a very obvious example—Jessica will know this chapter and verse—if you are thinking about devolving the ability to franchise buses, my sense is that you want to be able to franchise buses over some scale where those buses make sense from a labour market point of view and from a connectivity point of view. There is very little point in providing franchising powers to individual local authorities or individual towns. It is far too small. Overhead costs are very high. It makes perfect sense to do it at the Greater Manchester level or at the west midlands level, because that is essentially a labour market.

You will come to different conclusions depending on what kind of things. Typically, so far, with some variation at the margins, most of the conversation around devolution—again, GM being a notable example—has been primarily around labour-market/economy-type interventions, however defined. That is loosely the bucket. That does suggest to you that you think about devolving to economic geographies for reasons we know: to avoid displacements and lack of negative externalities, et cetera. That is where I would primarily think about it. We think about this from an economy point of view, which is why we are supportive of the political geography matching, to the best we can, the economic geography.

My final point on the counties goes back to the geography question. Where we have seen devolution thus far struggle a bit more than other places is where we get very complicated or often three-tier type stuff going on, where we have counties, we have districts, we have unitary authorities and we have combined authorities on top. That is a complicated institutional architecture through which to manage. When you think about counties, you have to think about how we do not add layer upon layer of further institutional or political governance, which might destroy any of the benefits that we might get.

That would be an in-principle response, rather than, “It is good for Wiltshire. It is not good for Norfolk”, et cetera. That would my way of thinking about that.

Jessica Bowles: To build on both of those brilliant answers, I worked on some of the original devolution deals and you could see this was going to take time. The first time you have a mayor, the first time you do a devolution deal, not all of the potential is unlocked. It takes institutions locally, it takes the public locally and it takes businesses to understand



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where the power of devolving can come from and how you can use the creativity locally to design the right solution.

I would argue that quite a lot of what we have done so far is decentralisation and not full devolution. We are giving programmes that Government has already designed and determined to local places to administer, not saying, "What do you need?" The trailblazer devolution deals are a real step forward because, for the first time, we are starting to see signs that you could have a single pot. There are not going to be massive switches between funding pots in that first iteration of single pot settlements in the devolution deals, but there could be over time. As people start seeing their place being a bit different to other places, this starts getting pride and connection back to the geography, to devolved decision-making that you have.

Buses is a brilliant example. We have seen very significant increases in bus patronage in Greater Manchester since the mayor took over and created a capped £2 fare in Greater Manchester. People connect that with local decision-making, and it has now been rolled out into other places across the country. That sort of connection with things that impact on people's lives is really important, and you will start seeing more of that as you spend more time.

The one other thing I would say around devolution is that this is not a one-off, where you do it once and then it is done. It is a process and it does require capacity to be built at local level at the same time as you devolve. You devolve and you build capacity and then you can take more responsibility and have more accountability. These things do need to sit together and do need to move through the journey.

I see no reason why you should not have county deals. Whether you have a mayor or not is a political decision and a different question, but I do not see why you would not devolve more things to counties. They often have very significant capacity. What I have seen work really well in terms of the working arrangements between different tiers of local government is when those places really come together around where there is common ground. It is not lowest common denominator or jam spreading, but asking, "Where is our real common interest and where can we cut across political parties to deliver what this place is capable of delivering and what this place needs?"

Q23 Danny Kruger: Thank you. That was really, really helpful. I only have a couple of minutes left and I want to get two more questions in. I am not quite sure who is the best one to direct this at, so just jump in if you want to answer. My understanding is that, until recently, the Treasury had a doctrine of being spatially blind when it came to public investment. The idea was that they were not looking at places. They were looking at returns on investment value for taxpayers' money. They were thinking about where to get the best bang for your buck.

Naturally, if you are thinking about pure economic returns, and



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particularly thinking about the housebuilding budget, you build in places where houses are expensive and that is the south. Is that still a doctrine that is strong in the system? Is it right? Perhaps it is the right approach. Do you detect a sea change in Government on that question?

Marcus Johns: When we look at the Green Book and the way that many of those decisions are considered, it has been overly driven by quite a short-term outlook. As I said previously, it has been missing looking at that transformational benefit, the long-term change that you can make by redirecting and reshaping a local economy over an extended period of time. We do not really think about that in the way that we make those investment decisions at the minute.

There were changes to the Green Book that were meant to allow for that. However, one of the points that we would make is that, looking historically, if you were to just assess things by their cost-benefit ratio, that does not actually show you the decisions that were made. There were a range of projects that had strong cost-benefit ratios. There was public transport investment in Leeds, for instance, and ones that were slightly weaker, like Thameslink's investments. Those went ahead. The Green Book is meant to inform decisions. That process is meant to inform decisions. It should be reformed and it has not quite got where it needs to be yet, but we should not forget that many of those decisions are then political decisions. Decisions are sometimes taken in alignment with the guidance that comes out of that and sometimes not.

The final thing that is missing is that our processes do not sufficiently take into account non-financial benefits. They are very focused on the productivity gains.

Q24 **Danny Kruger:** There has been some improvement in the system. It needs to go further, but we need political leadership. Does anybody radically dissent from that?

Simon French: In terms of the idea that the Green Book did not, in its original form, even before the recent changes, provide a framework to do exactly as you described and bring in a broader suite of calculations on deprivation and social mobility, it provides that framework; it provides the toolkit. I am afraid it does come down to the ministerial commitment, the frame of reference for an evaluation of any investment. I would hate the idea that we revisit the Green Book in terms of it providing a solution to this. It really does not. It is entirely fit for purpose as it stands. It requires ministerial direction.

Andrew Carter: Without doubt, we need to be clear on that. On the supply side, housing affordability and housing pressures are greatest in places like London, Cambridge and Oxford. You can see that in all the signals, and that is now. They are terribly unaffordable.

The second point would be, when you look at places like Greater Manchester, which is getting relatively more successful over time, what



we know is that if you do not do anything about that, more successful places become unaffordable over time. The housing affordability ratio in somewhere like Cambridge is about 15. In Manchester, it is now eight. It was less than that. It will be more than that in the future unless we deal with the housing supply issue.

My final point is that somewhere like Burnley has housing challenges, but they are not supply challenges, by and large. Affordability ratios in Burnley are something like five. They have housing challenges, which we may well come on to. We have to think through the nuance, I suppose, in terms of where housing is or could be a problem in the medium as well as the short run and doing something about that. That is where we need to get to. If we can make progress on that, you will find willing participants and partners in HMT.

Q25 Emma Hardy: I have a quick question, just going back to devolution, which is around the size of the devolution area. Bringing it back to Hull, the economic unit for the Humber is both sides of the Humber but, politically, the devolution deal being offered is Hull and East Riding only. What impact on effectiveness does devolution have when you compare something like Hull and East Riding, two areas together, with Greater Manchester or London?

Jessica Bowles: I would come at this by asking, "What is the natural economic geography of a place?" if you are going to take that around economic powers. Understanding the natural economic geography is really important. I know that it becomes terribly difficult when you start mixing politics into that. If I think about the challenges that West Yorkshire and Leeds city region have had over a long period of time to come to an answer, these are things that, locally, people need to come together around, and local politicians and leaders need to come together around.

My view is it needs to be the right economic geography and actually the size is not necessarily the question. You could have Greater Manchester and add in Cheshire, Warrington, Lancashire and Cumbria. It would be bigger, but it would not necessarily be right, because it is not a natural economic geography for the powers that it has. These things are really difficult because of the pragmatism that is required to balance economy, politics and getting something done. The worst you can have is to sit in a world where you are thinking about it forever.

Andrew Carter: Look at the experience we have gone through and are going through in terms of North of Tyne, which did precisely that. It cut the economy in half and said, "You can do a deal on the north side but not on the south". We tried that. It did not work and now the locality is coming to the right decision, which is to reintegrate the two sides of the economy. That will make a more robust institution.

My broader point is that approach and others—West of England is another example, where a quarter of its a geography is not in there—show you



the limitations of deal-based approaches, where essentially you are reliant, as a Government, on a coalition of the willing. If the willing is what it is, you take the deal. Ultimately, that worked for GM because they were in a different space politically. It will not work in lots of other places and you going to get inappropriate geographies over time, which will stymie and reduce the impact, however we define it. We need to grasp the nettle on this sort of stuff, as difficult as it is.

Q26 Sir James Duddridge: I would like to ask some questions around levelling up. Perhaps I will ask one omnibus-type question in a Kruger-esque way and then come to housing. On levelling up, it has been 100 years of people talking about solving these imbalances. I have noted down about 10 different buzzwords that mean similar to "levelling up" but are predecessors. What is the levelling-up scorecard? Clearly, this is not East Germany merging with a unified Germany, but they spent, according to the Bennett Institute, £55 billion a year. We are spending about £5 billion a year. We are still not succeeding in the way that we want to over the last 100 years.

What is the levelling-up scorecard and what is our ability to deal with this, going forward? You fix the roof while the sun is shining. There is certain economic hardship. What levers are remaining and is the Treasury part of the solution? They moved themselves up to Darlington, in part, which is probably a good thing, but the Department for Levelling Up says it does not understand all the levers and all the budgets across Departments. Does it need to be brought together in some way, and is the right place the Treasury?

Marcus Johns: If we take the scorecard as expressed in the levelling-up White Paper, there are reasons for people who are advocating for reduced regional imbalances to be pleased. One is that there is an open diagnosis of the problems in the White Paper and in the strategy, and an acceptance that we have such divides and the impacts on life chances. There is the link to devolution and decentralisation as one of the responses to that, which is correct. The setting forward of a more transparent, flexible devolution framework is also progress.

The mission-led approach is meant to provide a level of clarity and the missions are fairly stretching and welcome. Where there are maybe fewer points on the scorecard is the policy prescription that then follows, which does not necessarily seem to rise to the challenge that it sets itself in terms of the missions. That is not least because, when you look at what is available throughout the White Paper, it is very clear that the Department for Levelling Up, Housing and Communities has obviously led on this, but it appears that it has been difficult to get other Departments across Government to offer up powers to be put into the framework and so on. That element of co-ordinating across Government for levelling up may not be as strong as it ought to be.

Then the investment piece comes in. We underinvest, and the White Paper did not sufficiently take into consideration local government finance



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and the investment decisions that need to be taken. There has been a disconnect between funding decisions that have been taken, such as the allocation of the levelling-up fund, and the missions that the levelling-up White Paper sets out that it is going to address. I know that your colleagues on the Levelling Up, Housing and Communities Committee have criticised the Government for some of the decisions made. They have said it was left open to criticism on the way that those decisions were taken. That is my scorecard.

Simon French: If I can pick up on the Treasury point, I would agree with you that the economic campus in Darlington has got off to a really good start. It is a necessary part, but is certainly not a sufficient way of changing the culture in the Treasury.

Jessica mentioned capacity. Culturally, the Treasury has big doubts over the capability, particularly on commercial expertise and project management expertise, because of the long-dated, very centralised nature of economic and financial policy decisions in the UK, which has been hollowed out in the regions.

Therefore, part of that cultural shift in the Treasury is about the confidence that, when you devolve powers, the insurer of last resort, which, ultimately, is the Exchequer, is not on the hook if things go wrong. You can think of scenarios in Northampton and Croydon, and potentially emerging in the Tees Valley, where, ultimately the withdrawal of services is not a viable political option, and the Treasury looks at the asymmetry of responsibilities and rights and is quite uncomfortable with that.

What would I say? The shift to Darlington helps from a structural and geographical footprint point. I am encouraged to see that the Bank of England and other economic think-tanks are thinking very seriously about the north-east as a hub for their own expertise, but, without the cultural shift and, I have to say, the seeding of commercial and project management capability at devolved governance levels, you are not going to change the cultural piece in the Treasury. Going back to Mr Kruger's point, that is broadly about scepticism at ministerial level as to whether, if you devolve control, you are not ultimately going to be on the hook if things go wrong.

Q27 **Sir James Duddridge:** Are we seeing incentivisation work in terms of the tax system, freeports, special zones and super deductions? Are we seeing any benefit in the regions and cities of these initiatives, or is it too early?

Andrew Carter: It is too early, but all the evidence from elsewhere suggests that the effects will be minimal, and that a significant proportion of any benefits that are accrued to a specific place will, essentially, come to the detriment of places around it. There is a very big degree of displacement in these tax-based zones. We did some analysis looking at enterprise zones. The numbers were about a third of those projected by the Government of the day. Of that third, most were lower-skilled-type



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jobs, of which quite a significant proportion—about 30% or so—were displacements, so existing jobs that hopped into the zone from relatively nearby.

Sir James Duddridge: It would be great if you could flag the displacements.

Andrew Carter: That is a model of a zone-based-type arrangement, and that is not germane to us. It is zone-based interventions across the world. If you are the recipient of the zone, I hear politicians saying, “Happy days. We have the zone and you have not. I win and you lose”, but, from the Exchequer’s and a national point of view, it is probably not the optimum way that we would want to be deploying resource and/or tax incentives.

Jessica Bowles: My answer will be very brief. You need things that are less individual funds and more consolidated, which think about place rather than what is coming down the pipes from central Government and across all of the Departments. They need to think about how they land in place and give places the opportunity to determine how they would use additional resources.

Treasury has a massive role to play in this. Devolution happened because Treasury really helped make that happen in the first instance. You need some of this consolidating activity across Government to enable places to really do better and for you to be able to resolve some of those challenges and the pepper potting of money.

Moving things outside London does have an impact, but it takes a long time. If you think about the BBC, Channel 4 and NHS Digital being in Leeds, really helping stimulate that part of the economy, and the digital health economy in Leeds is because of NHS Digital being there, I would argue. There are real opportunities if you do it properly and if you put people there with skilled jobs, and if people from London see that it is beneficial to their career to go and do these jobs in places outside London. There is still a bias towards staying.

Andrew Carter: There are two examples that would be interesting in Jessica’s zone. One is existing. The city region transport settlement plans are a significant innovation and intervention in trying to provide our bigger areas with five-year certainty around how they think about evolving and developing their transport system. That came before the White Paper, but that was then rolled on and we have another five-year round. That is quite a significant innovation and is well regarded. It is allocated through an allocation mechanism rather than competition, et cetera, so that is a real win and something that we should think about more broadly as a principle and a way to inform how we make other decisions around investment.

Secondly, something that was announced but we will see in the trailblazer deals, and is significant if it comes to pass, is the single settlement



commitments that have been made by Government to the west midlands and to Greater Manchester, where, essentially, as Jessica was saying, you are trying to get towards providing consolidated pots of money or an investment over an extended period, for thinking about how that money gets deployed and washing away a lot of the ringfencing that often comes with these kinds of schemes.

That is to be seen, but, talking to colleagues in Greater Manchester and the west midlands, they see that as a really positive thing. Once we try it there—and we probably do need to try it to see how it works—that is a model or a principle that could be deployed over time to more places, which would be much more significant than an extra X or extra Y on levelling up funds. That is just pots of money to be distributed as you see fit.

Q28 Sir James Duddridge: I would now like to move on to housing and land usage, given some of the comments. Perhaps I will let you all comment and pick and mix again from questions. I would be particularly interested, Simon, if you could go into a bit more detail around differential impacts of interest-rate rises. A number of people have talked about purchasing parity, wealth and house prices alongside wages to understand how much of a differential this is.

On the housing side, can we do more to improve mobility? I was quite shocked at how immobile people are in terms of the 80% of people moving within region. Can we eliminate stamp duty and look at long leases or at cheaper rental options, and draw perhaps from the developing world, where property tax is based on values, which allows smaller, less productive use of land to morph into a higher productive use over time?

Andrew was talking about cities being constrained by planning permission. Do we have too many small cities? Is that part of the problem? I am not saying that we should close one city and double the other side, but, over 100 years, have we, in a public policy intervention, effectively created too many hubs? It does not allow for the clusterisation—if that is even a word—or specialisation that economic development needs.

Simon French: If I take the invitation to talk about interest-rate increases and their asymmetric impact across the regions, we know from the FCA's mortgage data and the geographical breakdown that the highest LTVs and the highest LTIs are disproportionately in London and the south-east. Therefore, if you think about that as being probably our best indicator of the type of stresses that will emerge as we go through the refinancing cycle over the next two to three years, you would imagine that those potential periods of negative equity and affordability will be disproportionately concentrated in London and south-east, and that will act as a headwind.

The second headwind is if you think about the UK residential market being a £7.2 trillion asset class, or three times GDP. Let us say that



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consensus forecasts are for a 10% to 15% nominal fall in house prices over the next three years, or probably 25% to 30% once you adjust for inflation. That is a pretty considerable negative wealth effect. If you think about, generally speaking, economists' models, I would model it as, for every pound of wealth lost—and this is the homeowner cohort even without a mortgage—you probably reduce your consumption spending by about three to five pence in the pound. That is a multibillion-pound headwind to deemed consumer spending in that part of the economy and, again, that £7.2 trillion is disproportionately located in London and the south-east.

You can make two strong arguments that the regional disparity that has emerged as we have had three decades, as I said previously, of declining global interest rates starting to go into reverse. The slight offsetting impact, which may be affecting the data that we have seen in real time and, I suspect, is a source of great frustration for the Bank of England and private-sector economists such as myself, is that the initial impact of interest-rate increases has been a faster pass-through to cash savings that have yielded more consumption power in the short term. It will level off and then go negative in terms of its impulse on consumer spending power as we move through the refinancing cycle.

In terms of that first impulse, where are those cash savings disproportionately located? Again, it is in the most affluent parts of the country. We know that that is where a lot of the excess savings took place during the pandemic. The initial impulse may be giving us a little bit of a misleading picture of the regional pass-through of interest-rate increases over the next few years.

Andrew Carter: We looked at some of the geography around the increases in housing equity. On average, homeowners in and around the greater south-east were, over a 10-year period, accruing £80,000 more than places elsewhere in terms of housing equity, simply because of the appreciation of their said asset. As Simon said, many of those are now in the position where they own their home outright, so there is a big question about that.

Those are also the places where it is the most difficult to increase housing supply, for reasons that we know well through the planning system, which may not work as effectively as we would ideally want it to. There are lots of issues around that.

In terms of mobility, there is, on the one hand, a question about facilitating and enabling mobility, whether across country or inter-regionally, or whatever might be, and we need to be mindful about simply the availability of homes, as well as the cost. The critique that I always get is, "If we increased the supply of homes, the cost would not come down". First, that is not true. Secondly, supply and demand does work in the housing market as it works in other markets, but it would take a while, particularly in some places where affordability is off the chart.



What you also see is just the availability of housing in some of our places. When we look at empty homes, there are fewer than 1%. There are fewer empty homes in somewhere like Wakefield than there are in somewhere like Berlin, which is mad. We do not run a surplus stock. There are two questions, which are around availability and cost, and we need to be much more mindful about that.

The broader, bigger point, which goes back to the very central theme that we are talking about, is that part of the mobility challenge is whether we can support and enable place like Greater Manchester and Leeds to grow. I am just picking those two places, and there are others. Can we allow all places to grow, if they are able to do so, in order for them to create more opportunities for more people wherever they might be? Part of the problem is that everything funnels into a London situation or into a greater south-east problem.

Again, all of these things are interrelated. We have actively encouraged our cities, through planning decisions and systems, not to grow. What has happened is that, where they have grown, they have done so in incredibly environmentally unsensible and unfriendly ways, and that is bad, particularly given climate change and net zero.

Q29 Sir James Duddridge: Jessica, I was going to come to you, but I was particularly keen for your views on the taxation system based on land value and whether that would help transform some of these small cities and get land being used more productively.

Jessica Bowles: I do not want to jump to tax solutions, because it is such a big topic, and also such a complex thing with all sorts of unintended consequences, so I am not going to go there.

I would want to say one thing, which is that there are real opportunities for more housing in places where we have built the connections. It is a theme that I have used quite a bit through my evidence today, which is that you need to see whole systems. If you are thinking about small towns around Greater Manchester, such as Bury, Stretford and the like, we are thinking about how you reimagine those town centres, but part of reimagining those is how you use the land in those to have more housing and to create denser places for people to live in.

In doing that, you can also start thinking about different models of ownership and of institutional ownership, and the opportunity for different rental models that move into ownership, if that is the right thing to do. We can be quite creative around housing in those places where we have good transport connections, but we are underusing them at the moment, so there is more that can be done creatively.

Chair: That is a great note to finish on, and it has been a really interesting panel this morning. Andrew, I would just flag Detroit as a place that grew outward in an unregulated way, or, perhaps on the dirigiste side of things, the banlieues around Paris, neither of which seem to me to be ideal models. The work that you do at the Centre for Cities is important and, I am sure, is informed by some of the ways that we would



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not want to go in this country. This has been a really interesting session. You have been a fantastic panel in bringing us your expertise, and we really appreciate your time this morning.