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LSE Spatial Economics Research Centre

Monday, 3 March 2014

# Mind the Gap

**[Posted by Prof Henry G. Overman]**

On the Today programme this morning talking cities with Ed Cox (IPPR North) and Evan Davis - whose two part series Mind the Gap: London v's the Rest starts tonight on BBC 2.

You can listen to the debate here [about 2h 53m in].

The starting point - on which we all agreed - is that the geographic concentration of economic activity in London and the South East offers fantastic opportunities in terms of both work and play (as a result of 'agglomeration economies' arising from the benefits of physical proximity).

The points of disagreement relate to the extent to which this is sustainable and whether it would be possible to generate similar opportunities elsewher

On sustainability, Ed Cox specifically raises concerns about infrastructure - and points to IPPR North's numbers which suggest we are set to spend £5,000 per person on infrastructure in London but only £250 per person in the North East. These figures are certainly striking, but they should be interpreted with considerable caution because they are far out of line with actual expenditure. Actual expenditure is reported in the Treasury's Public Expenditure Statistical Analysis Tables. According to those tables, in 2010-11 London received £800 per head (compared to an English average - including London - of around £400). But the second ranked region was the North West with £337 per head. These headline figures are complicated by number of factors. Many people from outside London use London infrastructure on a daily basis (because so much employment is based here). Also, more of London's spending is funded out of fares paid by people using the London transport system. For example, about 80% of the funding for railwa services in London and the South East comes from fare payers, compared to only 40% for regional railway services. This document from the Scrutiny Unit provides further discussion. In short, there may come a point where the costs of London's infrastructure requirements become excessive relative t revenues (fares plus taxes) but it doesn't seem we are there yet.

Our second point of disagreement concerned the extent to which it would be possible to replicate London's success elsewhere in the UK. Crucial to answering this question is the role that scale and physical proximity play in driving London's success. The evidence suggests that these are pretty important - strong market forces, working via agglomeration economies explain London's success, and this is much more important than any bias on behalf of government. Don't get me wrong, I'm not arguing that there is no bias - England is a very centralised economy and that may distort the overa balance of expenditure. But we need to realise that strong market forces, rather than biases in public expenditure, are the driver of London's economic success.

Once we recognise this, it has fundamental implications for what a more balanced UK economy might need to look like. If creating similar opportunities London requires similar scale and physical proximity, could we get anywhere near this by 'joining' up our Northern cities through greater infrastructure investment? I remain sceptical - not least because our work estimating the impact of quite substantial reductions in travel times between Manchester a Leeds suggests only modest economic gains. Joining up our Northern cities would help, but it would be expensive (remember those subsidy figures above) and it's unlikely that it would be enough to provide an effective counterbalance to London.

If balancing the effect of London requires somewhere 'big and Northern' that raises the very difficult question of where that place might be? Politics bei what it is, I can see why many people (myself included) would prefer to dodge that particular question.

Posted by Prof Henry G. Overman on Monday, March 03, 2014 G+1 Recommend this on Google

## 3 comments:

**Ed Cox said...**

I very much value this debate and hope these comments help further our shared endeavour of driving prosperity in the UK.

You are right about the reliability of historical PESA transport stats but the reason we choose to use the forward-looking stats is that a) they show the significant amounts of private sector funding that are also levered in on the back of public investment hence the overall disparities in infrastructure funding; b) they are something that we can still do something about! It is notable though that even the historical stats show a significant and widening disparity in public funding.

The critique concerning non-resident users of London's transport system is weak. The ONS calculate that there are 800,000 non-residents that use London's transport system on a typical working day, the large majority of which are commuters. Even if we were to use a generous estimate of 5 million non-resident users, those users would still be receiving the benefits of over £2000 investment per capita – ten times as much as the North East of South East. We'd need almost half of the population to be regularly using London's transport system to get anywhere near a more even benefit.

We are also well used to the critique about revenue spending being higher in the north. Whilst it is true that nationally-set farebox regimes mean that southern commuters have less subsidised fares, overall government transport revenue expenditure is consistently around £300 per head – once again more than double any other region. Many Northern commuters would like a less rigid farebox regime as the level of subsidy is always the reason given for poor rolling stock and poor services in the North. One hopes the new franchising rounds – with a greater element of decentralisation led by Rail North – will change this.

We have addressed these matters in greater detail - and other critiques of our work in our report 'Still on the Wrong Tracks' - http://www.ippr.org/publication/55/10933/still-on-the-wrong-track-an-updated-analysis-of-transport-infrastructure-spending

4 March 2014 at 10:43

**pirate** said...

The commuter system of the Northwest is weak. In its heyday there were 4 routes between Liverpool and Manchester. Now there are only 2 direct and one with a change required in the middle, with slow trains on the section between Kikrby and Manchester.
It is not the spatial separation of people and cities that is the problem but the temporal one. A high speed transpennine route from Liverpool to Hull would better produce a mega city than the merger of councils.
I did not that 1/3 of Crossrail was coming from the national budget, when a city such as London is so far ahead the very least it can do is pay it all from local funds. With national funds being allocated in relation to the degree of disadvantage of a place. This would act as some form of a leveller.
The introduction of Transport regions say for Liverpool, Southport->Wigan-> Warrington ->Chester would allow for London like planning of transport and allow the Transport regions of Liverpool and Manchester cooperate on inter region services. With Londons drag. Leaving the inter city and HS routes as a national concern, primarily connecting the central hubs of these transport regions.

While the idea of a federal England might not be attractive to all, having the transport system arrange on such a basis does, I belbelievemake sense.

I did some blogging on the possibilities with some pictures.

http://peterirate.blogspot.com/2013/10/a-pan-northern-railway-or-trans-pennine.html
http://peterirate.blogspot.com/2013/12/hs2-phase-2-liverpool.html

and created some PDFS.

https://drive.google.com/file/d/0BzqZlKsgcriVY0tlYVk5N2ZhRkE/edit?usp=sharing

5 March 2014 at 18:33

**Ben Jamin'** said...

Every time a city doubles in size, it gains a 15% bonus.15% higher GDP per capita. 15% higher wages. 15% more amenities per capita.
This becomes a positive feedback loop with more people attracted by those benefits. ie Agglomeration.

Given London is not only the largest city in the UK(eight times larger than Birmingham), but Europe too(over twice as large as Berlin), it attracts everyone from around the World for a piece of the action.
The problem lies in the fact this productive surplus is captured by landowners, by the simple expedient of owning a freehold title. (Hence higher house prices).
The right to exclude others from gaining access to this surplus is granted by the State. So the fact it doesn't ask landowners to pay for this privilege is therefore an implicit subsidy.
Given London and the SE has about 60% of land by value, this has some very important ramifications for others parts of the UK. It means taxation on income and enterprise, that has to be raised in order to support this subsidy also falls on more marginal areas.So regions outside the SE are effectively being priced out by tax.
End this subsidy, and lower/eliminate taxation, those areas outside the SE have a far lower tax burden than at present. This would attract much higher investment where it is needed most.
So on a 100% LVT only model. London and the SE would be paying an extra £134 bn per year (2007 figures). Or an increase of 75%.
We don't need redistributive government policy. That has, and always will fail. Just a level playing field so Birmingham, Leeds and Glasgow can up their rate of agglomeration too.

13 March 2014 at 12:20

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