



# Spatial Economics Research Centre

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## Three challenges facing the Northern Powerhouse

Posted by Neil Lee, Department of Geography & Environment and SERC

The Northern Powerhouse is the government's latest attempt to spatially rebalance the economy. The idea is that by joining the cities of the north into a single functional agglomeration, they would have the scale and critical mass to counterbalance London. The optimistic goal is to 'reverse the North-South divide'. The agenda has achieved [public recognition](#) far above other economic development policies, although this is a pretty low bar.

I'm speaking today at the Social Market Foundation on the [economics of the Northern Powerhouse](#), as part of their 'ask the expert' series (I have a [new SERC policy paper](#) on the topic). There's an element of fraud about my presentation: the Northern Powerhouse is far too fuzzy and wide-ranging for anyone to be an 'expert' on everything. It has become a broad agenda which drifts far from the theoretical underpinnings, with significant moves around devolution of powers, new and better coordinated transport, investments in science and innovation, and some tokenistic moves around culture. Many of these would have happened anyway, but [my research](#) suggests there has been some (limited) new investment.

There is much to agree with in the Northern Powerhouse agenda. It is loosely based on the economics of [agglomeration](#) and an optimistic view of cities as a driver of growth. Many of the institutional reforms, notably Transport for the North, seem overdue. And it is a great brand. But there are also some significant issues with the agenda.

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First, it is geographically vague – and this has led to competition for resources. It isn't clear if this is an agenda about providing a single counterweight to London, or about creating an equal playing field across the North. As Ben notes [here](#), spreading the jam too thinly risks achieving little. In addition, perhaps with an eye on the promised new finance, lots of [places outside the North](#) are also trying to become 'Powerhouses'.

Second, it isn't clear whether there is enough jam to have any meaningful impact. The government claims significant new investment as part of the agenda. But the evidence here is shaky. There is a long-standing [debate](#) about the extent to which government investment favours different places, and there is no definitive figure on Northern Powerhouse spending in official reports. A rough estimate suggests that while there has been some new resources, the new spending is around £10bn - nothing compared to that going into projects like Crossrail (I'm grateful for updates on any of the numbers [here](#)). Moreover, they must be set against significant general reductions in finance for Northern local authorities.

Third, it is unconvincing on the most important driver of disparities in the UK: [skills](#). Wider improvements might (indirectly) attract skilled workers, universities do get more resources and some devolution deals will touch on skills. But these are minor parts of the agenda - and Jim O'Neill (Minister for the Northern Powerhouse) has recently begun to recognise the importance of education and skills to the success of the agenda. It is hard to see an easy solution, however. There are longstanding concerns about vocational education in the UK; so passing the buck to local areas would not be a great move. But spatially targeted improvements in schools seem to have had some impact in [London](#). New ideas, particularly from the northern councils, are important here.

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### 1 comment:



Benjamin said...

Agglomeration (economies of scale) are like a natural resource that humans tap into in order to produce output above subsistence levels.

Where we find the hubs of the biggest networks (city centres) we therefore also see the highest demand for the land needed to tap into these agglomeration effects.

As by definition, Land is all that is not created by human effort, in a fair economic system it's value would be shared equally, thus used as public revenue, instead of penalising people for what they produce by taxing output.

If the UK shifted its taxation from income/capital/transactions to location values this would benefit regions outside London and the SE in three ways.

1. Firstly, because location values are so highly concentrated, those regions would be liable for around £100bn per year less in taxes every year. Not just good for discretionary incomes, but would attract investment from around the World.
2. There are several sets of deadweight losses that can be reduced and eliminated by using land rents instead of taxes on output to finance public services. Simplifying the tax code is an added bonus. Estimates for these losses currently range from 20-50% GDP for the UK, so the growth potential is enormous.
3. As land values come from agglomeration effects and a preference for locational amenity over capital goods and services, this aligns the incentives of urban planners. So, we don't just get more protection of green spaces because of more efficient land use, but better urban environments too.

With the housing market able to operate efficiently, demand would shift away from London and the SE to where there is currently the most slack, negating the need to wastefully build the hundreds of thousands of homes per year currently projected.

It's all about efficient markets. Without a 100% Land Tax, we have a distorted market that results in London and the SE becoming a Land Monopoly Black Hole.

Not good for the vast majority of Londoners, bad for the rest of the UK, and bad for our economy and our environment.

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