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Spatial Economics Research Centre

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Can local authorities close the gap between rich and poor?

Islington Council 'Fairness Commission' is due to report today on its proposals for [narrowing income inequality within the borough](#). This raises the question of the extent to which any one local area can address inequality. Many urban economists are sceptical.

Here is [Wallace Oates](#) (who wrote a number of classic papers in the area) quoting [Edwin Cannan](#): "Measures adopted to produce greater equality are, however, exceedingly unsuitable for local authorities. The smaller the locality the more capricious and ineffectual are likely to be any efforts it may make to carry out such a policy. It seems clearly desirable that all such measures should be applied to the largest possible area, and that subordinate authorities should be left to act, like the individual, from motives of selfinterest."

The underlying problem relates to the mobility of households. Localities which are generous to the poor tend to attract poor families. Assuming the expenditure is funded by local taxation, richer families tend to move in the opposite direction, to less generous localities. This leaves the local poor having to pay higher taxes to help the local poor. Because mobility generates an externality across boroughs there are also incentives to underfund provision. As Oates points out the [English Poor Laws](#) dealt with the problem of migration by abolishing it: 'the responsibility of each parish [was] to provide relief for its own, but only its own, poor.'

In short, either because of the limits to effectiveness, or because of the tendency for underprovision, most urban economists tend to favour national policies as the appropriate mechanism for addressing individual inequalities. Local policies are a distinct second best. A lesson Islington Council may be about to learn the hard way.

Posted by [Prof Henry G. Overman](#) on [Thursday, June 09, 2011](#)

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