

[Ending the regional divide](#) [1]

Written by [Dr Eamonn Butler](#) [2] | Thursday 11 August 2011



On Wednesday the Bank of England published its quarterly inflation report. The Bank was as optimistic as usual, blaming the present high figure on special factors, such as the high cost of food and energy imports thanks to the spectacular fall in sterling. But the report actually goes much deeper than that, looking at output, costs, and prosperity in the UK. That is a mixed picture at the best of times, but when you have economic turmoil in operation, as now, the picture throughout the country is even more confused.

If nobody is borrowing because they are unsure about the future, that is bad news for the financial sector, and for housing and construction. So that's a blow to the South East. But then a low pound makes things easier for our manufacturing exporters, who are concentrated in the Midlands, Wales, Yorkshire/Humberside and the North East. By those standards, the South should be in decline and the North should be booming.

But they're not. The North-South income gap has been widening for the last two decades, and got even wider during the recession. It seems unlikely to narrow much anytime soon. The government is desperately throwing £1bn of regional funding at the disparity - but that's hardly enough to make any difference, and in any case, these kinds of structural funds are generally so bureaucratic that real local businesspeople and entrepreneurs steer clear of them, wishing they could just have the money in tax cuts instead. And then there is the new enterprise zones policy - I am all in favour of deregulating anywhere we can, but these zones take time to establish, and even so, do they just entice investment from where it wants to go - but only until the incentives stop? You can't make capital and enterprise go where it doesn't want to, when it would be better employed in another place.

Much of China's growth has been down to forcibly shipping people off the unproductive land into the far more productive cities. In the UK the most thriving city continues to be London. That is where the UK's principal service industries are based, of which the biggest is the financial sector. It is simply the most logical place for industries, like international services, that are highly mobile - well served by good communications, trains and airports, close to continental Europe, well educated and, -let's face it, warmer and sunnier than, say, Manchester or Newcastle.

What stops London and the South East from booming even more is of course planning restrictions, which stop it spreading both outward and upward. And that in turn prevents people from migrating from North to South -believing that they simply could not afford the housing costs. Arguably, if you want to make people in the North better off, you should let them migrate South by easing the planning rules and making property in the South East more affordable. That won't go down well in the Home Counties, but it's true.

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