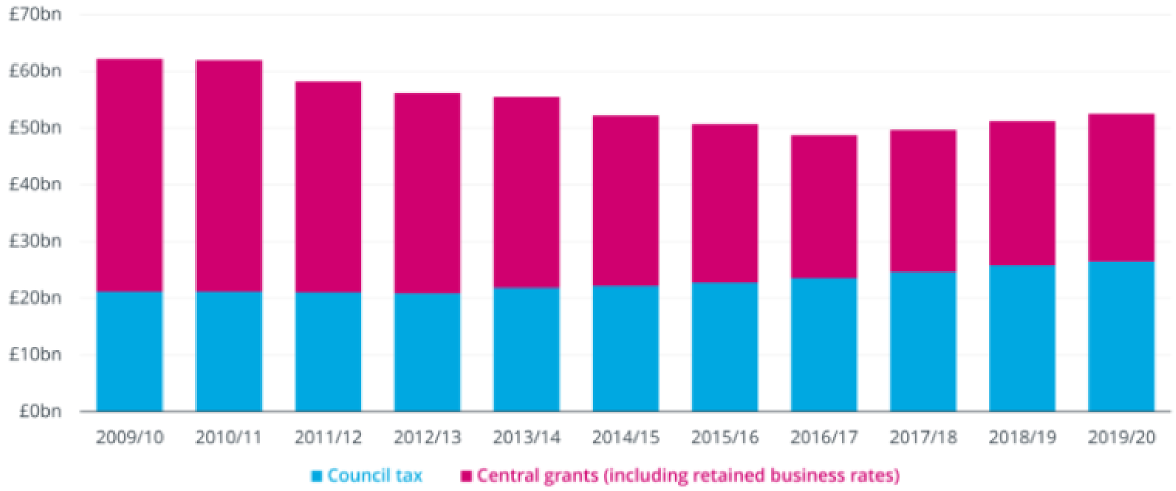
Levelling Up: What will it take to level up Britain?

The government's plan for levelling up was published in February of this year. [1] It follows a decade of austerity and exit from the EU, both of which make the chances of the plan's success that much harder.



For example the chart [2] shows that the money local authorities have had to spend on local services from government grants, council tax and business rates has fallen 16% since 2010. The largest cuts have been in government grants which fell by 37% between 2010 and 2020. According to the Office for Budget Responsibility taxes will bring in £1,038 billion by 2025-26. However without Brexit, revenues would have been around £42 billion higher.[3] EU funding is now being replaced by the UK Shared Prosperity Fund. It is to be worth £2.6 billion over the next three years and will then increase to £1.5 billion per year by 2024-25. A committee of MPs has pointed out that the £1.5 billion yearly budget represents a 40% reduction compared to what the UK received from the EU between 2014 and 2020. The UK received £15.4 billion or £2.5 billion per year.[4]

Much of the criticism of the government's levelling up plan has focussed on the lack of funding. To give some idea of the scale of funding required to level up the UK the Centre for Cities [5] looked at the experience of Germany after the reunification of East and West in 1990. About 2 trillion euros was spent on levelling up between 1990 and 2014, the equivalent of about £71 billion every year. Initially almost half of the money was spent on things like pensions and unemployment benefits to support living standards in former East Germany. This was followed up by investment in infrastructure, education and skills. There were also measures to make former East German cities and towns more attractive places to live and to discourage young east Germans leaving for better opportunities in western Germany.

Just before reunification in 1990 GDP per capita in West Germany was 12.3 per cent higher than that of the UK. East Germany's GDP per capita on the other hand was very low in comparison both to West Germany and the UK. Because East Germany's GDP per capita was very low, it meant that the GDP per capita of the new reunified Germany worked out at just below that of the UK and considerably below the former West Germany. By 2017 however the new reunified Germany had a GDP per capita that was 13.2% higher than the UK's – slightly larger than the 12.3% difference that existed in 1990 between the former West Germany and the UK. The countries and regions of the UK have not only become much more unequal during the past three decades, but the UK as a whole has fallen behind significantly in terms of economic growth.[6]

One reason for this 'falling behind' is centralisation. The UK has one of the most centralised systems of government among all advanced economies. Only 5.2% of taxes are collected at a local level in the UK. This compares with France 13.6%, Norway 15.5%, Denmark 25.7% and Sweden 35.5%. Germany, the United States and Canada are federal countries with state governments as well as local levels of government – the average of state and local levels for these three countries are 16.1%, 17.6% and 24.6% respectively. Research confirms that decentralised systems are more likely to lead to higher and more balanced levels of economic growth than centralised systems.[7]

The New Economics Foundation argues that levelling up must focus on improving people's lives and livelihoods within their own communities. To achieve this it sets out a series of recommendations across five broad areas, the first of which emphasises the importance of decentralisation and devolution: [8]

Devolve powers to local areas
Bring about a radical transfer of powers over transport, housing, skills, employment support, business support, climate change and local taxation from London to local regions.
Raise living standards
Boost incomes by raising the National Living Wage. Create a £15bn to £20bn social infrastructure fund for public sector jobs, training, and pay across 11 key occupations over an 18-month period and with 50% devolved to regional authorities. This should cover areas such as care workers, nursing assistants, and teaching assistants.
Focus on the everyday economy
Create good jobs and lift wages in sectors such as retail, hospitality, care, and public services that exist in every place and which make up 63% of all jobs.
Support small and medium sized businesses (SMEs)
Boost SMEs through access to affordable rents, finance, and business advice. In particular create a network of regional community banks across the country to service areas where traditional banks are withdrawing
Go green
Invest £28 billion a year in the green transition over the next five years and devolve 50% of this funding to regional authorities to invest in the green infrastructure and services they need.

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