IEA Current Controversies No.83

10 WAYS TO SUPERCHARGE LEFT-BEHIND BRITAIN

Introduction by
Dehenna Davison MP
October 2021

iea

Contents

Introduction

Reinvigorating the parts of the country that have become known as 'left-behind Britain' is one of the most pressing issues facing us today. And, as both a northerner and an MP for a red wall seat, it's a problem that's particularly close to my heart.

That's why I was delighted to chair the judging panel for the IEA's 2020/21 Richard Koch Breakthrough Prize.

This essay competition called for pro-market, pro-enterprise ways of supercharging growth, employment and living standards in Britain's declining areas and carried a first prize of £50,000. It attracted hundreds of stimulating and innovative entries from around the world.

One of them came from 26-year-old Tim Foxley, who was living and working in Dubai when he made his submission. But it was growing up in Stoke-on-Trent that drove his prizewinning suggestion of a 'People's Tax Rebate'.

You can read it here, alongside all of the top ten entries from this year's competition. Together, they make a significant and lasting contribution to the debate.

My congratulations to Tim and his fellow winners; my thanks to the IEA for putting this burning issue in the spotlight; and my deepest gratitude to Richard Koch for his compassionate and far-sighted support for this crucial and timely initiative.

Dehenna Davison MP, Bishop Auckland
September 2021

About the authors

Michael Bracken is a former investment banker who spent much of his career working in Asia Pacific. He currently lives in Buckinghamshire where he was elected as a councillor in May 2021.

Ralph Buckle is a former IEA staff member, working on events, educational outreach and public affairs. He now works as a speechwriter, occasional author and dedicated side-hustler.

Michael Dnes is a civil servant and transport historian. His recent work includes getting the government to back the first new dual carriageway over the Pennines in fifty years, and HS2 to serve more communities in the North West.

Rosemary Enright has been an army officer, a copywriter in the advertising business, a journalist and a company director. She has also published several novels. Rosemary lives in Ripon.

Tim Foxley is a strategic communications consultant working across the UK and the Middle East. He previously worked as a Parliamentary Assistant to a Conservative MP. Michael holds degrees from King's College London and the University of Buckingham.

Martin Higgins is a final year PhD student at Imperial College London in the field of cyber-security. He has a passion for politics, policy, martial arts, and AFC Bournemouth.

Vignesh Kamath studied for A levels at John Leggott College in Scunthorpe and is now an economics undergraduate at Emmanuel College, Cambridge.

Duncan Neill has recently co-founded a technology company and has a background working in sectors such as payments, travel and hospitality.

Erik Paessler graduated from King's College London in 2021 with a European Politics BA. His research interests include European Union politics and differentiated integration.

Robert Sutton is a junior doctor in Wales. He has previously worked as a parliamentary staffer and health policy researcher.

Freeport UK

Michael Bracken

The government currently plans to open eight freeports in England, offering relief from tariffs and other tax breaks.[1] But these are only likely to have a minor impact. We should instead turn the whole of the UK into a tariff-free zone.

The proposal

Freeport UK is a proposal to refocus trade policy on benefiting UK consumers and the domestic economy. Free trade is too often identified as being an issue for exporters or for the protection of businesses from (supposedly) unfair competition. Under a Freeport UK approach, the entire country would be established as an open market. Put simply, we should scrap tariffs on imports and unilaterally recognise overseas countries' product standards.

This approach is now possible for the UK as it has left the EU. By adopting such a bold strategy, we would be returning to policies advocated by Adam Smith and David Ricardo, and in principle supported by most serious economists.

Although politicians of all parties can from time to time make the right noises about free trade, the reality is that the mercantilist mindset runs deep. Thus public statements on trade deals, for example, largely focus on new opportunities for exporters. The current programme from the Department for International Trade to establish free trade agreements

1 See Freeports: What are they and where will they be? - BBC News

bilaterally across the world as well as applying to join CPTPP[2] is good in so far as it goes, but there is not enough focus on imports and improving choice for UK consumers.

Such consumers will benefit most when they have the greatest freedom to buy goods and services at the lowest prices for the quality they seek. This side of the trade agenda needs much more attention. To benefit consumers throughout the economy, but not least in poorer parts of the country, the UK should go beyond the tottering global model of 'managed free trade' first established by the GATT and now under the World Trade Organization.

Implementation

I propose a seven-point plan.

First, the Department for International Trade should be renamed the 'Department for Free Trade'. The roles of the Secretary of State and supporting Ministers should be redefined - including a specific Minister for Imports with oversight of HM Customs and labelling standards.

Second, the importation of any product to the UK should be tariff- and quota-free. The UK global tariff should be abolished. Note this removal of tariffs would apply to *all* countries and not be limited to partners recognised as advanced economies.

Third, the UK should unilaterally recognise all product standards of a long list of recognised advanced economies. Any product would be automatically deemed approved for sale in the UK if it meets either an existing UK standard and/or is capable of being sold in a recognised advanced economy. The list of advanced economies would extend to almost all of the UK's major trading partners: for example, EU and EFTA countries, USA, Canada, Israel, Japan, South Korea, Taiwan, Hong Kong, Singapore, Australia and New Zealand.[3] The only *product* exceptions would be where distribution in the UK is already controlled, for example weapons or drugs. All food products should be explicitly included in the policy, allowing consumers to make their own free choices. In addition, professional qualifications from advanced economies would also be recognised as well as standards

2 The Comprehensive and Progressive Agreement for Trans-Pacific Partnership of 11 Asian and Pacific Nations.

3 China is the only exception as a major UK trading partner which is not classified within either the IMF or OECD lists of advanced/high income economies.

which promote the import of services. This initiative goes beyond the handful of Mutual Recognition Agreements implemented by the UK.[4]

Fourth, for imports from other countries, the UK would look to recognise those countries' standards on a sector-by-sector basis as a first step towards full recognition. For example, recognition of food and certain consumer product standards from other countries where there are strong UK population links.[5]

Fifth, a new Freeport UK Act to include simplification of import procedures (this would be the primary role of the Minister for Imports who would be given direct oversight of HM Customs) and labelling laws amended so that in the case of a product relying on an overseas country's standard, that is clearly (and simply) indicated to consumers. Any party would have the right to propose import procedure changes for any product as well as amendments to labelling rules. The Minister for Imports would, under the proposed law, be timebound (e.g. 30 days) to either remove the existing rule or set a revised rule. The message to those frustrated by import bureaucracy would be that they are invited to propose solutions to problems, with the possibility of speedy resolution.

Sixth, the UK's points-based immigration system should be reviewed to enable greater flexibility for overseas businesses to establish operations in the UK to take advantage of new market opportunities. Any activity which would be likely to enhance competition or more generally be in the interests of consumers would be encouraged.

Finally, the government should set the radical goal for the UK to be the most open market in the world. Specific measures of performance against this objective should be established and monitored.

For further details, contact Michael at michaelbrackenx@gmail.com.

4 Mutual recognition agreements exist with Australia, New Zealand, United States of America with some provisions in trade agreements with Switzerland, Israel and Japan. UK trade agreements guidance, gov.uk

5 India, Pakistan, Bangladesh and China lead the list of countries of birth amongst migrants living in the UK according to the Migration Observatory briefing, 6 November 2020.

Simplifying the 'side hustle'

Ralph Buckle

A survey suggests that 64% of the UK workforce would like to start their own businesses. But almost half of these would-be entrepreneurs fear they never will.[6] The proportion of pessimists is markedly higher in the North-East, the North-West, Yorkshire and Humber, the South West and Wales. These areas have benefit claimant rates at or above the national average. Residents in these areas are also more likely to have unpaid care responsibilities and are more likely to be underemployed or economically inactive

My proposal is for the creation of a new business category which would make it simpler and cheaper for people to found small 'side hustle' businesses – those conducted, often from home, alongside other activities, responsibilities, and sources of income. This move could potentially improve life-chances and prosperity for thousands of people across the UK and particularly those in areas at risk of being left behind.

The reform might also help create a growing movement of entrepreneurs and significant knock-on benefits for the wider economy. The costs to the Treasury would be relatively low and could rapidly be outweighed as businesses grow, incomes rise, benefit dependency falls, and productivity improves.

Other benefits could include legitimising an already significant sector of the 'shadow', cash-in-hand, economy, improving mental health, and expediting the national bounce-back from the pandemic. The UK could become a global leader in a new employment world moving rapidly towards the gig economy and portfolio careers.

6 See 64% of Britain's Workforce Wants To Set Up Their Own Business | SME Loans

Why focus on side hustlers?

Many potential entrepreneurs cite being too scared to quit their job to pursue their business ambitions as a main reason they hold back. A proposal that can lower risk by helping people to pursue a business idea alongside existing income/work streams is likely to yield positive results.

Existing side hustles tend to be in business service, creative outlets, catering, events, driving, and blogging.[7] They typically require only very limited capital investment. They face few regulatory barriers beyond the administrative and tax burden imposed by the government. A move to alleviate this burden should have a higher success rate than measures targeting a wider range of businesses. Simple changes to support those wishing to start a business alongside existing income streams could have a big impact.

The proposal

We should create a new business category as an alternative to existing limited company types for those wishing to launch a business alongside their other work or activities. The purpose of this innovation would be to make the process of starting and running a part-time business as simple and low-risk as possible. It should allow the new entrepreneur to focus on their business and it should ensure that as few as possible are put off by the perceived costs and complexities of the bureaucracy and administration.

The category would be specifically aimed at those wishing to set up a small side hustle business. A possible definition could include annual turnover under £50,000, profits under £10,000, no employees, and a maximum of three directors. This should capture most intended recipients without being broad enough to entice fraud. The scheme would mostly operate on an honesty system as the potential gains would be minimal and the costs of investigation would outweigh any potential lost revenue.

Those in this category could benefit from several simplifications in what is currently required of them by the government. These would include waiving of the business registration fee and the requirement for an annual confirmation statement, plus an option to submit a much simpler set of annual accounts. Indeed, the accounts for these businesses would only need to be four lines long, to include their annual income, outgoings, any loans, and their

7 See The ‘side hustle’ culture: Is this the new norm? - Hiscox Business Blog

subsequent profit and loss. This would hugely simplify their reporting requirements, eliminate the need for extensive book-keeping through the year, and for many eliminate the potentially crippling need to pay an accountant. Banks could be encouraged to provide simple business accounts which automatically provide these numbers.

As the average side hustler only puts six to fifteen hours of work a week[8] into the enterprise, minimising the amount of this time he or she spends on paperwork could significantly improve the productivity, benefits and growth potential of the business.

In addition, companies in this category would pay no corporation tax (assuming their profits remained under £10,000). Directors would have no tax liabilities for any dividends paid and there would be no impact on their Job Seekers' Allowance or other benefit entitlement they may have. This would maximise incentives for potential entrepreneurs while minimising the risks they might face from setting up.

The final stage of the proposal would include a clear pathway for businesses to transition to an existing business model if they begin to grow beyond the side hustle stage. This should include guidance on upgrading, further reporting requirements, tax liabilities, and any other information they require. This would help ensure businesses are not put off expansion once they reach the viability level the profit and turnover requirements provide. By this point, budding entrepreneurs should have accumulated enough experience and income to complete accounts, hire accountants, and pay taxes.

Costs

This proposal would inevitably involve a small loss of tax revenue to the Exchequer, but as many these businesses either would not otherwise exist, or would have operated in an unregistered way, this would be minimal. If 100,000 new businesses were created, all only ever making £10k profit, the lost revenue would amount to less than £200 million a year.

However, if even a small number of these businesses do grow beyond the initial side hustle stage, the net result is likely to be significantly positive in tax receipts, new employment, lower benefit payments, and all the roll-on effects of a prospering market economy.

8 ibid.

Summary

Thousands of businesses are never created because potential entrepreneurs either cannot risk taking the plunge, or because the initial process and ongoing requirements are too intimidating. A few small steps to reduce the risk and simplify the process could unleash a wave of entrepreneurialism with real immediate benefits to individuals and considerable potential gains for left-behind areas and the whole UK economy. We should simplify the side hustle.

For further details, contact Ralph at rb.breakthroughprize@outlook.com

Zoom Towns are the future – and we can make them happen

Michael Dnes

For generations, ‘left-behind’ Britain has been drained of human capital. Ambitious young people have headed to the prosperous cities to make their fortune and haven’t returned. This has stripped much of the country of the talent that once helped it thrive, and channelled success towards London and the South East.

But Covid has rewritten the rules on distance, and now there is a chance to change this. Costs of living have risen in cities; quality of life feels worse. Working practices have surely changed forever, meaning that the urban agglomerations[9] that have defined the economy of the past are no longer anchored to office desks. This is the moment to bring human capital home.

Change is already happening, but in an unfocused, low-impact way. We know that the impact of skills and innovation depends on density. We can drive a transformation by concentrating the shift in a few consciously promoted locations – Zoom Towns.

What is a Zoom Town?

My proposal is to promote Zoom Towns, communities that would intentionally attract a large number of remote workers, particularly from London. Rather than a few isolated individuals in offices and spare rooms, these people would be a key part of the town’s economy and wider life.

9 Agglomeration effects are the savings or opportunities generated by activities being in close proximity to one another, traditionally associated with cities. This proposal argues that this is now possible in new, decentralised ways.

Zoom Towns would aim to attract people through low costs of living and a high quality of life: they are places where people could afford to live well. This would be equally true for long-standing locals and new arrivals, as early work to establish a Zoom Town should focus on measures that make life better for all.

The way in which a Zoom Town could develop would involve management by a dedicated body called a Development Mutual. This would lock in the benefits of growth locally and make protecting the character of a place a key priority.

The Plan

The first phase of the plan involves convincing skilled workers in London and the South East to move to Zoom Towns. This begins now, while the case to move is at its strongest, by ensuring and then advertising such strengths as accessible property prices, an attractive local environment and high-quality public services.

This campaign doesn't need to convince everyone: London absorbs 120,000 first-time buyers each year, with more across the wider South East. Attracting even one per cent of this number would transform some potential Zoom Towns instantly. There is particular potential to attract young families with less need for social and cultural facilities: Zoom Towns offer affordable homes with more space and better access to the outdoors.

Advertising can be buttressed by quick, realistic policies actively improving quality of life in Zoom Towns or making it easier to move in. These could include high quality broadband, comfortable co-working spaces (remote working does not necessarily mean home working), improved transport links and targeted investment in schools and social infrastructure.

The plan must also protect the sense of community that is core to the appeal of a Zoom Town – this isn't about making the North turn Southern. Measures to improve quality of life must benefit locals as well as new arrivals; and there must be structures encouraging new arrivals to integrate with and participate in the local community.

Development Mutuals

It is easy to envisage a Zoom Town; delivering it is harder. Placemaking is notoriously complex and is not something for which local government has historically shown flair. The best examples of transforming local fortunes have come from special-purpose entities – such as Garden City companies, the railway companies behind London's Metroland and the New Town Development Corporations.

This paper proposes to revive the underlying concept and evolve it a step further. Past bodies were intended to create new development on empty sites, but Zoom Towns seek to build up established communities. This demands a new model that not only delivers change but does so in a way that maintains local trust.

Each Zoom Town should therefore be built around a Development Mutual – a body similar in powers to a postwar New Town Development Corporation, but with a governance structure where ownership rests with existing and new residents.

Each Mutual should have a charter setting out its core principles and goals: a requirement to enable growth, improve quality of life, keep housing affordable and maintain social cohesion. The election of the Chair, Chief Executive and Board should be in local hands. That means the people who decide how to implement those principles would be locally accountable and would have to operate in a way that maintains trust.

If structured carefully, a Development Mutual could be funded largely through private sector borrowing, without affecting the government's balance sheet. If a company generates its revenues through market transactions (the sale of land or housing), and has sufficient independence in its decision-making, its debts would not sit on government's books.

This means that a Development Mutual can be run without an ongoing stream of funding and could even be formed without the need for government support at all.

Conclusion

Moving skilled labour begins an economic transformation. Initially, the main impact comes from the injection of new skills and London-sourced wages into the local economy, helping to foster local SMEs. New skill clusters attract new employers to invest in an area, while some London-based businesses might be encouraged to identify a Zoom Town as a hub for remote workers. Right away, local economies become more diverse and hence more secure for all.

In 2020, the way we deal with distance changed. This is a perfect opportunity to even the balance between the South East and the rest of Britain. By drawing on trends that are under way, strengths that 'left-behind' Britain already has, and institutional structures that have proven their worth, Zoom Towns give new vitality to old places. Built well, these are not colonies of London, but incubators of true local growth – and a template for building back better.

For further details, contact Michael at michaeldnes@gmail.com

XChangeUK: why we need regional stock exchanges

Rosemary Enright

Regional stock exchanges aren't a novel idea. They can be found in countries across the globe and were a feature of the British economy in the nineteenth century. In Victoria's reign, every reasonably sized city in the UK had its own – including Bristol, Glasgow, Liverpool, Sheffield, Cardiff and Birmingham. By the 1970s just 11 remained, but these were phased out swiftly thereafter.

There is a strong case for their reintroduction, for XChangeUK, to facilitate a rebalancing of the UK economy based on channelling investment into regional businesses. Local enterprises would grow, generating more employment, stemming the flow of talent and entrepreneurial skill to the South East – with the added benefit of restoring civic pride in those cities where new stock exchanges are founded.

Too often, businesses operating outside the nation's entrepreneurial hubs find growth constrained by a lack of investment. Access to finance is a perennial issue for all founders, but the problem may be more acute among those with less exposure to potential investors or mentors.

The journey from start-up to IPO is typically bumpy and arduous, but those regional firms which scale to a point where listing on the London Stock Exchange or the Junior AIM Market is a viable course of action may find costs and access to brokers are too limiting. Some entrepreneurs will believe the only options available are to relocate the business to the South East, accept a glass ceiling on size and scale, or plan an exit. None of these options has served the regions well.

Consider Morrison Supermarkets, first floated in 1967 on the then-Northern Stock Exchange. Shares were 174 times over-subscribed as 80,000 buyers flooded in to buy them. The household name was founded from a single egg and butter stall in Bradford's Rawson Market, its creator once remarking that companies outside the M25 enclave are often undervalued. Would Morrisons have seen equal success on the LSE?

A historical perspective

Regional stock exchanges sprang into being in the nineteenth century, during an era of unprecedented industrial activity. Public confidence was high. Provincial markets had been home to local railway companies and banks, but as these amalgamated, we saw a thinning of each individual stock market's homegrown portfolio. At the same time, there was an increase in the number of businesses moving their headquarters to the capital.

By the 1900s, a 30-year decline had led to closures of smaller markets and the coming together of larger, more powerful exchanges. Leeds, Manchester, Liverpool and Newcastle joined to form the Northern Stock Exchange. It survived until 1973, when it was absorbed into the LSE.

In conjunction, improving communication technologies created an inter-market porosity, blurring and merging the markets together. Local character, and the close interaction between brokerage firms, directors and investors, was lost. Regional exchanges – which match regional companies and regional savers – could change that.

Can it be done?

The idea of regional stock exchanges would doubtless be more appealing than the implementation. It would require unwavering government support, though no primary legislation would be needed. New stock markets would be businesses in and of themselves; with responsibility and accountability to ensure what Nick Clegg and Sir Vince Cable promised in 2010: "regional platforms, matching local investors with growing small businesses to provide cost-effective access to equity".

The introduction of provincial exchanges would be a five-step process. First, the Financial Conduct Authority would need to convene the elected representatives of capitals across the devolved nations, to secure their support. Second, the FCA would need to select an initial six cities as homes to phase one of new stock exchanges. These would likely be towns and cities which are already – or have previously been – financial centres with reputable universities and reasonable levels of entrepreneurship.

Third, the FCA would need to invite brokerage firms to signify interest in a particular location. Exchanges would need to think strategically about how they get companies interested and attract investors. This may be through lower listing fees, less regulation, or possibly offering dual listings. Participation may be best suited to larger brokerage firms with offices in the designated city: Redmayne Bentley, for example, once a partner in the old Leeds stock exchange, already has one in Leeds.

Fourth, the stock exchange partnerships could be incorporated by Royal Charter, protecting new partnerships from sale, take-over or amalgamation without Privy Council approval. Lastly, the range of products sold on these new exchanges would be the decision of the partners of each individual market. But they should be encouraged to reach out to local companies seeking investment, perhaps implementing mentoring programmes to guide businesses through an IPO. Secondary markets will develop; the local privilege should only be restricted to the first issue.

Another example: Thackray Ltd of Leeds was first founded as a Victorian pharmacy operating in premises directly opposite the then-newly built Leeds Infirmary. It developed into a world- class designer and producer of both surgical instruments and of prosthetic surgical implants, arising from its co-operation with the city's teaching hospitals and celebrated surgeons, such as Archibald McIndoe and John Charnley. Thackrays also approached the Industrial Liaison Unit of Leeds Polytechnic (now Leeds Metropolitan University) for advice on how to meet their growing production needs as their order book began to challenge the company's ability to meet the demand. Until the 1990s, producing instruments and implants to extremely fine tolerances had been something close to a craft operation. Leeds Polytechnic's involvement meant that Thackrays linked up with manufacturers who were able to meet highly exacting specifications, even improving on quality in some instances and vastly expanding the volume and speed of output. Though Thackrays in the end decided against flotation, the local nature of its creation and expansion underscores Xchange UK's potential.

Spreading the word

Despite the increasing integration of capital markets, geography still matters. Germany has seven regional stock exchanges, the largest of which is in Frankfurt. It is hard to imagine that residents and local authorities in any city or town would object to their region opening a stock exchange, but a communications push – to get the word out through the media, leafleting, speeches or community events – would help.

XChangeUK could change the economic landscape of Britain and Northern Ireland, restoring a long-lost confidence and pride in what can be achieved in certain regions of the country. This is precisely how the government should approach levelling up, rather than believing that handouts alone can somehow make left-behind areas more prosperous.

For further details, contact Rosemary at rosemarydenright@gmail.com

The People's Rebate

Timothy Foxley

The UK's reliance on London and the South East harms productivity across the country; between 1998 and 2018, London's economy grew at an average annual rate of 3.1%, double that of the North East, at 1.5%.[10] This effect carries through to living standards: a boy born in the North West can expect to live three years fewer than one born in the South East.[11]

Post-industrial cities, rural areas and coastal towns across the country have seen traditional industries collapse, high streets become ghost towns, and far too many people becoming reliant on government handouts.

My proposal is for a 'People's Rebate', an unprecedented tax cut targeted at the UK's 'left behind' areas, to boost economic growth, living standards, and employment.

Why a People's Rebate?

Successive governments have tried to reach 'left-behind' areas through spending on infrastructure schemes, grants, and moving around elements of the public sector. Good infrastructure is indeed necessary to support economic growth, but schemes often take many years to come to fruition and the benefits of construction work do not necessarily go to local communities. Other benefits have been limited.

10 Budget 2020: Delivering on Our Promises to the British People. HM Treasury, 11 Mar. 2020, HC 121 – BUDGET 2020 – 11 March 2020 (publishing.service.gov.uk)
11 The Equality Trust (2014) A Divided Britain? Inequality Within and Between the Regions, https://www.equalitytrust.org.uk/sites/default/files/A%20Divided%20Britain.pdf

The main reason for this is a problem of knowledge; Whitehall officials cannot possibly know better how to meet the needs and desires of those living in poorer areas than the individuals themselves. Furthermore, public spending is inefficient, and government cost-benefit analyses tend to favour schemes in London and the South East. Government spending may even crowd out private investment which would have been made in these areas in any case.

If government schemes are ineffective, what is the solution? A general lowering of taxes might boost innovation and growth across the country, but the benefits would be tilted towards the already productive South East, and people in 'left behind' areas might well perceive tax cuts as handing money to the rich, at the expense of the public services on which they rely.

My answer is the People's Rebate: a politically possible means of reducing taxes, encouraging entrepreneurship and improving living standards, but specifically improving less prosperous areas. This is *not* a standard tax cut.

In the People's Rebate scheme, taxpayers would receive a significant (up to 90%) rebate of their income tax and National Insurance (NI) contributions based on where they live; employers would also receive NI rebates. The more deprived the area, the larger the rebate.

This offers an immediate and automatic spending boost in lower-income areas. Moreover, in the medium-term it would encourage high-paid workers and businesses with high NI bills – who would have most to gain from a lower tax rate – to move to lower-income areas, rather than clustering in a few prosperous cities and counties. As high earners moved in, deprived local areas would see increased local spending, more local tax revenues in council tax and business rates – and, most importantly, would be dramatically more attractive places for skilled people to move to, and for ambitious entrepreneurs to start new businesses.

How the Rebate works

The process of the People's Rebate follows three simple steps:

Step 1: Local authority areas sorted into deciles by income
At the end of each tax year, lower-tier local authority areas across the UK would be sorted into deciles based on the mean income of their residents, calculated from the ONS Annual Survey of Hours and Earnings and the ONS Labour Force Survey.

Step 2: Local authority decile determines rebate level
For the tax year beginning one year later, taxpayers would receive a rebate on their income tax and employee NI contributions, and businesses on employer NI contributions. The level of this rebate would be based on the local authority area in which the employee lives, on a sliding scale from 90% in the poorest areas to 0% in the wealthiest.

Step 3: Deciles are recalculated each year
Local authority deciles would be recalculated at the end of each tax year, with the corresponding rebates coming into force one year later. This constant refreshing of the rebate means the policy would be active automatically, increasing incentives for people to relocate as areas become more or less wealthy over time.

Calculations for the tax year 2020-21 show the scheme would have produced the highest rebate for the post-industrial towns of the North and Midlands, rural Wales, Cornwall, and the Isle of Wight. The rest of the North, Midlands, Wales, East of England, the South-West and some London boroughs make up the bulk of the middle deciles, while the South East and the remaining London boroughs form the highest decile areas.[12] The proposal would boost growth and employment in disadvantaged areas and improve living standards.

Costs

This policy would be costly. If it had been enacted in 2020-21 across England and Wales, the policy would have resulted in a total rebate, or reduced tax take, of £96.41 billion – or 4.7% of GDP – with £60.73bn of

12 The calculations were made for England and Wales only as Northern Ireland and Scotland present problems as a result of demographic factors, data problems and differential tax rates.

this coming from income tax, and the remainder from employee and employer NI contributions.[13]

There are however significant mitigating factors. The primary one is that a dramatic fiscal policy is required to reset dynamism in the economy, and tax reduction is better than increased spending. The UK's economy has been historically and severely lopsided. Government spending on infrastructure, business support, and any other measure aimed at increasing the lot of 'left behind' areas is unlikely to have a lasting impact, as it does nothing to increase incentives for the most skilled entrepreneurs and workers to base themselves in such areas.

Another mitigating factor is that people on lower incomes have a much higher marginal propensity to consume. By targeting the rebate at lower-income areas, each pound retained is very likely to be spent rather than saved, stimulating the economy more than other fiscal measures.

Conclusion

It is clear that the UK's 'left behind' areas are in need of a dramatic shift in opportunities, earnings, and productivity. Policies which tinker around the edges will not fundamentally alter the London-centric nature of the economy, and at worst would waste taxpayers' money for no tangible benefit.

The People's Rebate is the solution. It would immediately boost the spending power of 'left behind' areas and create the conditions for entrepreneurship to thrive right across the UK. It would give people back money they have already earned, lacks the bureaucracy associated with other stimulus schemes, and focuses on poorer regions by design.

The People's Rebate would be a dynamic step towards increasing the UK's productivity, spreading opportunity from the South East to the rest of the country, and lowering the overall tax burden, all at once.

For further details, contact Tim at tgfoxley@me.com

13 Income tax rebate cost calculated by multiplying total income tax receipts as reported by HMRC by rebate values calculated above. National Insurance receipts per local authority estimated using earnings percentile data in ONS Annual Survey of Hours and Earnings, then multiplied by rebate values.

Turf Moor into Singapore: Distributed Policy Making

Martin Higgins

Distributed Policy Making (DPM) offers a solution to top-down governance. It will delegate policy on manufacturing, regulation and workers' rights to local regions. It will empower small and local businesses, helping deliver prosperity to left-behind towns.

A good example of one of these towns is Burnley (with which the author has a close family connection). Burnley was once a national powerhouse in both economic and footballing terms. Its cold and humid climate gave it a relative advantage for textile production, helping Burnley grow rapidly in the early post-war period. Today, it is among many former industrial towns and cities suffering long-term decline. But we can turn Turf Moor into Singapore, by implementing DPM to enable local residents to have more of a say over the rules and regulations in their regions.

Many policies do not need to be set at national level. It leads to one-size-fits-all regulations, which are often ill-suited to the needs of some areas. Better distribution of policymaking, in areas such as manufacturing, would mean more tailored regulations that serve the interests of these regions. For instance, some decision-makers may decide to lower the minimum wage in their constituencies, to reflect the lower cost of living and support local start-ups in need of skills and workers. Regions with high seasonal worker requirements could relax rules around hiring workers. Why should Burnley, where the cost of living and productivity are currently low, be governed under the same laws as the prosperous enclave in the South East? Particularly given we already see regional weightings in pay at public sector level.

The economic benefits

It is unlikely that implementing DPM will reignite old industries, but it could allow novel ones to emerge by lifting regulations that stifle creativity. There is precedent: rustbelts in the US have become hotbeds for entrepreneurship and innovation, being converted into 'brain belts'[14]. Northeastern Ohio, a region previously dedicated to car manufacturing and steel production, became a hub for new materials engineering.

The construction of mills in Burnley was the result of the existence of waterways and canals driving the easy movement of goods. But its relative advantage as a cold and humid region was only discovered later, when the mills reliably produced greater volumes than surrounding towns. There is trial and error in the discovery process; we won't find the next productive industry in towns like Burnley without creating the opportunity for experimentation.

DPM will allow competition between policymakers. With constituents as consumers, they will be held accountable for measures implemented. They will be incentivised to adopt the sorts of anti-regulation, pro-innovation policies that will attract investors and maximise employment – thereby securing votes.

Key considerations

1. Proposed regionality

The most sensible approach would be distribution to the county council level. The size of these areas means that policymakers will be attuned to the needs of the local community. Pre-existing boundaries and local government structures will help avoid needless confusion. This would create around 25 regulatory sub-regions within the UK. The impact of DPMs will be significantly smaller on less-nimble, larger businesses, which operate on a national or international level. It is the founders of small and medium-sized enterprises who will be free to take advantage – by selecting locations with the greatest potential to support the growth of their businesses. Deviation would likely benefit Burnley Burgers rather than McDonalds.

2. Lessons from the Preston Model

However, the transition to the adoption of free market thinking won't happen overnight. And there is the possibility that, at least initially, some regional

14 https://www.ft.com/content/e600b592-e61c-11e5-a09b-1f8b0d268c39

councils will implement more restrictive policies. After all, many of the calls for a more devolved style of policymaking have come from the left. Consider the ‘Preston Model’, celebrated by Jeremy Corbyn and praised by Demos. “Community wealth building”, researchers at the think tank said, “has lit an intellectual fire that is undeniably exerting a positive influence on civic imagination across the country.”[15]

After the Financial Crisis, Preston’s civic leaders embarked on a ‘community wealth building programme’ which promoted a regional style model based on municipal socialism. It linked the local council with key local organisations and businesses and led to the share of the public procurement budget spent within the city rising from 5 per cent in 2013 to 18 per cent.

There is a risk that, rather than unpick the swathes of regulation which hold businesses back up and down the country, councils will pursue Preston-style initiatives. But they should bear in mind the poor record of publicly sponsored enterprises in the 1970s, and the potential for rising costs to the taxpayer and ratepayer.

3. Is permissive legislation the solution?

This could be mitigated by the introduction of permissive regulation – a smorgasbord of non-compulsory, pro-market legislation from which local councils can pick and choose. Giving MPs responsibility for designing this legislation could boost broad political support for the DPM model, though some resistance towards devolving more powers to local government officials is to be expected.

One example of such legislation might be a ‘permissive minimum wage’. The costs of living in Burnley are comparatively cheaper than other parts of the country (the average housing deposit for a first-time buyer in the UK is £35,000; in Burnley some three-bedroom homes can be purchased in full for £40,000)[16] But our national minimum wage disincentivises entrepreneurs from starting up in these areas, given they would be shouldering staff costs but be unable to recoup some of that investment through raising prices.

Some companies outsource administrative or content moderating roles to India or the Philippines, where the cost of labour is cheaper. While

15 See https://demos.co.uk/wp-content/uploads/2019/06/June-Final-Web.pdf
16 https://trussle.com/mortgages/house-deposit

businesses should be free to hire staff from across the globe, scrapping the minimum wage in certain regions may improve employment opportunities for local residents.

And there are many examples of how deregulation could cut costs for businesses and allow UK cities to become sophisticated markets for burgeoning technologies.

Conclusion

The idea of a Lancashire man or woman driving their Tesla to a job at Facebook may seem like a stretch. But the implementation of Distributed Policy Making via permissive legislation could help towns like Burnley discover new comparative advantages to kickstart their local economies.

Through DPM, we can help redress the policy imbalance which has helped destroy our former economic powerhouses. Towns such as Burnley can find new levels of growth, prosperity, and dignity which have not been seen in the post-war period. We can offer all these consistent with a free market/libertarian non-compulsory perspective which leaves local communities free to choose their own policies.

For further details, contact Martin at *martinhenryhiggins@gmail.com*

‘Smart specialisation’ done smarter: the hub-and-spoke model

Vignesh Kamath

Classical economic theory posits that all regions have a ‘comparative advantage’ over others in a narrow range of industries as they are endowed with resources that allow them to operate at a lower opportunity cost. As a result, regions specialising in their respective comparative advantages and exporting surplus output increases economic efficiency and boosts regional economic growth.

In a perfect world, free-market economics would largely rule out geographical inequalities: all regions would be recognised for their economic capabilities and positive feedback loops of investment and prosperity would be felt across the nation.

But the long-run sustainability of this model hinges on regions moulding their specialisations around the dynamism inherent in all market economies – industries swing in and out of favour, and consumption patterns jolt at the slightest provocation. To this end, capitalism provides a spontaneous discovery process of ‘creative destruction’ wherein long-standing industries decline to make way for new ones.

Although regional specialisation is prevalent across the UK – all regions are to some extent defined by their involvement in a narrow range of industries – its economic success has been considerably more muted in left-behind Britain. The reason behind this is partly psychological: rather than making rational decisions based on all available information, most investors acquiesce in herd behaviour when investing. This makes regional 'brand images' crucial attractors for investment – just as advertising lures customers into buying a product, regions in a free-market economy with a strong brand image of operating in a sector attract industry-specific investment and overseas demand. Unfortunately, investors and firms are unaware of the vast basin of potential in left-behind areas due a combination of long-running misconceptions and failures to modernise regional specialisms.

My proposed hub-and-spoke model tackles these issues by catalysing the spontaneous discovery process. Its time-tested success in bringing regional development makes it a promising policy tool for supercharging living standards in left-behind Britain. It goes beyond the current Europe-influenced model of 'smart specialisation'[17] which is too top-down.

The proposal

1. Determine which areas need 'levelling-up'

The term 'left behind' is still mired in ambiguity despite its ubiquity in recent political discourse. Since government time and resources are scarce, an objective, comprehensive indicator of socioeconomic underperformance is needed to quantify the extent to which regions are left behind and therefore highlight areas most in need of regeneration. Although various possibilities exist, a 'left-behind index' created by the Institute for Fiscal Studies[18] offers a ready-made example.

2. Introduce permissive legislation to determine regional specialisms

Once priorities are established, the specialisation of each regional 'hub-and-spoke' unit must be determined. The central government takes a hands-off approach in this stage by introducing permissive legislation that asks a simple question: 'What industry or industries should your regional economy specialise in to make the most of its values, skills and potential?'. This would give workers, firms, education providers and local authorities among others the opportunity to harness their dispersed, tacit knowledge of their regions to suggest more promising sectors to specialise in.

17 See Smart Specialisation in England - GOV.UK (www.gov.uk)

18 This combines measures of pay, employment, formal education, and incapacity benefits to identify which areas might be considered in need of 'levelling up'. See Alex Davenport and Ben Zaranko (2020) 'Levelling Up: Where and how?' Levelling up: where and how? - Institute For Fiscal Studies - IFS

For example, the development of the Humber Estuary into a hub for wind farm technologies was driven by local towns' existing industry specialisations which fed into different stages of the production process.

Similarly, the North East could specialise in advanced manufacturing and robotics to pay homage to its shipbuilding legacy whilst cultivating internationally competitive engines for growth and long-term employment. Agricultural regions such as the Welsh Marches could learn from highly productive food exporters in the Netherlands to make strides in the agri-tech sector, improving agricultural productivity and food security in Britain.

3. Set up enterprise zones

Creating enterprise zones in each regional hub would provide the financial nudge necessary for left-behind areas to entice foreign investors in an increasingly competitive market for FDI. Alongside the business rate relief and capital allowances that feature in existing enterprise zones, liberalised planning regulations would encourage site development, not hinder it from day one. More precisely, waiving planning permission requirements for projects contributing to a region's specialised brand images would be a welcome intervention for all stakeholders.

4. Connect industries with local education providers

Enterprise zones in isolation may not maximise long-run regional development as they create incentives for businesses merely to relocate their production and jobs to areas within an enterprise zone[19]. This provides few marginal benefits for workers and regional development.

This cannot be prevented, but encouraging human capital development amongst local workers can maximise the job-creating potential of these enterprise zones. Local education providers such as universities, FE colleges, and apprenticeship training providers should play a central role in upskilling workers. Doing so means that local people will be the main beneficiaries when job opportunities arise.

Continually upgrading the workforce also avoids the risk of specialised regions suffering from endemic structural unemployment if hit by sector-wide shocks from global innovation and footloose capitalism. This is

19 Evidence from previous Enterprise Zones suggest that up to 80% of the jobs they create are taken from other places. See Andrew Sissons and Chris Brown (2011) Do Enterprise Zones Work?," http://www.cooscountywatchdog.com/uploads/8/7/3/0/8730508/do_enterprise_zones_work_february_2011.pdf.

because the local stakeholders that influence and maintain a region's specialisations are the first to foresee such threats to industry, allowing them to innovate accordingly to minimise any potential economic impacts. Providing young people from the local area with ample training and employment opportunities in well-paying industries gives them the option to fulfil their ambitions without having to move elsewhere. Re-energising workers' pride in their hometowns and local industries in this way is crucial to reversing the regional brain drain that has kept left-behind areas on the back foot for decades.

Conclusion

Building dynamic hubs based on regional specialisms, with spokes of new enterprise fostered by a fresh entrepreneurial mindset, makes multiple improvements on the 'smart specialisation' concept. It involves genuine decentralisation, realigned priorities rather than patched-up schemes, support for rural areas as well as towns and cities, movements up the value chain and lower barriers to entry. It calls on the localised knowledge of communities to determine regional economic pathways and primes the pump to set inward investment and the market discovery process in a new direction for left-behind Britain.

For further information contact Vignesh at vigneshhkamath@gmail.com

Supercharging growth using Innovation Network Credits

Duncan Neill

The only sustainable way to raise economic growth, employment and living standards in ‘left behind’ Britain is to supercharge the quality and quantity of British innovation. My proposed Innovation Network Credits (INCs) policy offers a credible way to do this, at no net cost to the Exchequer, and avoids the usual pitfalls of Government innovation policy.

Innovation is a collective phenomenon, built on the exchange of ideas between different parties. It is unpredictable, incremental and always a combination of technologies and ideas. It is more akin to evolution than it is to the Big Bang.[20]

The INC proposal recognises the fundamentally broad and collective nature of innovation and proposes a novel way to exploit this by providing incentives and rewards for companies, individuals and organisations to collaborate.

INCs would be earned by attendees and organisers of innovation-focused and INC-accredited events, and also offered as prizes for solving important and difficult innovation challenges. These INCs translate to tax credits available to companies and individuals. By linking 50% of the value from the current R&D tax credits scheme to INCs, this policy heavily incentivises known innovators to participate in the new network. Cost savings from those R&D tax credit claimants who choose not to participate would be sufficient to cover the additional costs of the scheme.

20 See Matt Ridley’s (2020) book *How Innovation Works* London: Fourth Estate.

How would INCs work?

My Innovation Network Credits would be tax credits earned by attending, and fully engaging in, INC-accredited events, and would be available to companies claiming R&D tax credits (when their employees attend), other companies sending employees, individuals attending in their own right – and also organisers of events.

Many different types of events would fit the criteria for INC-accreditation. In-person regular or one-off events could be organised as conferences, talks, demonstrations, competitions, hackathons, debates, informal discussions, workshops or networking sessions. The hackathon format (a design event within a time constraint), developed more recently in tech sectors, could be adopted for all sectors.

In addition to attracting employees of companies, INC events would also attract individuals from colleges, universities, hobbyist groups, trade and industry bodies and other existing networks. Individuals, whether employed, retired, studying or unemployed, are a fertile source of ideas, experience and knowledge. Many of these groups currently lack opportunities for exposure to, never mind the potential to contribute to, innovation.

Taking an active part in any of these INC-accredited events would earn INCs. These INCs would form the basis for a significant financial incentive for R&D-intensive companies plus innovation-focused individuals and companies to become active members of a national network.

Companies which claim R&D tax credits

A key part of the policy is to make a meaningful proportion (50%) of any R&D tax credit claim dependent on the applicant firm gaining an appropriate number of INCs during the year. The existing HMRC claim process would be amended to include a check against the INC register. One INC would have an implicit value of £1,000.[21] An INC event could be worth one, two or several INCs to attendees, depending on clear criteria.

Other companies

INCs would also work with other tax mechanisms for companies not claiming R&D tax credits. For example, incentives could be provided via

21 For example, 50% of a R&D tax credit claim of £100,000 could be linked to gaining 50 INCs with implicit value of £1,000 each

a direct rebate to company payroll tax bills worth £1,000 per INC earned. This would broaden the range of companies and organisations that would be financially incentivised to engage in INC events.

Individuals

For individuals, INCs would be claimed on annual tax returns as a credit to their tax bill. This would be at a lower but still attractive rate, say £200 per INC earned, up to an annual limit. INCs could also be credited against student loan balances, providing a mechanism to incentivise students and graduates to contribute to the INC network.

Organisers

To promote an increased supply of high-quality INC events, INCs would also be available to organisers - businesses, organisations and individuals forming and managing INC events. The value of INCs for organisers would be set to be sufficient, and if necessary varied by region, to ensure widespread coverage of events.

INC prize awards

INCs would also be employed to drive innovation to solve specific and significant problems identified through the network, for example by being awarded as prizes, similar to the eighteenth-century longitude rewards.[22] The form of these INCs could be a tax credit of a certain value (for example, £100,000) or a tax holiday (for example, zero corporate tax rate for the first 24 months after an innovation has been commercialised), to incentivise the rapid adoption of the innovation. The INC administrator would have freedom to create prize competitions combining its budget with private sector contributions.[23]

The direct cost of the INC policy

The INC policy would be net neutral in direct cost to the Exchequer - savings from the minority of R&D tax credit claimants who did not take part in the INC scheme would offset the additional costs of running the new policy. The net cost and overall efficacy of the policy would be managed

22 www.en.wikipedia.org/wiki/Longitude_rewards
23 The INC administrator would likely be established as a Non-Departmental Government Body

by adjusting the value of INCs across the various tax credit mechanisms (R&D tax credit claimants, other businesses, individuals, organisers and regional variations).

Benefits to 'left-behind' regions

There are a number of reasons why the INC policy would benefit 'left-behind' regions more than the wealthier regions of London and the South-East.

The INC scheme would be open to all sectors and would financially incentivise individuals and businesses to engage in new events, building new networks of collaboration. The removal of barriers (individuals could attend INC events free of charge) and incentives (tax credits) – would be particularly beneficial in less wealthy regions and communities.

The marginal benefit from new events for innovators is higher in regions where few such events currently exist. Innovators in London can already join functioning, if sub-optimal, local networks. But innovators in 'left behind' regions are far less likely to have access to existing networks and therefore have far more to gain from INCs. The regions labelled 'left behind', were, ironically, the birthplaces of much of the innovation that drove the Industrial Revolution. There is no compelling reason why these regions cannot again become hotbeds of innovation, complementing London and the South-East, to supercharge growth across Britain.

In the same way that individual 'outsiders' drive innovation, the 'left behind' regions of Britain have no vested interest in the status quo. Reigniting and opening up widespread innovation in these regions is a priority.

It is time for a new age of optimism, ambition and confidence when it comes to Britain's innovation output and the potential of all its regions to drive this. My proposed Innovation Network Credits policy could play a crucial role.

For further details, contact Duncan at *duncan.neill@me.com*

A ‘digital working’ policy for ‘left-behind’ Britain

Erik Paessler

My proposal involves supercharging Britain’s digital infrastructure, enhancing educational opportunity and flexible working as the means of lifting up ‘left behind’ regions while boosting the economy as a whole.

The technological context

In 2021, the e-commerce and digital content freelancing sectors are experiencing the fastest growth in the UK. Whilst the pandemic has exacerbated the need for e-commerce personnel to meet rising demand in online shopping, the digital content freelancing sector has grown in reaction to uncertainties in the traditional jobs market. In start-ups, the UK’s fastest-growing sectors last year included digital security, crypto-currencies and FinTech.[24] Further growth sectors such as social media and digital marketing, customer service, e-learning and artificial intelligence also largely rely on digital skills that can be acquired via retraining at varying speeds.

Research suggests that by 2025, half of all employees worldwide will need reskilling in order to accommodate technological change. 40% will require reskilling of only six months or less.[25] Technology use, monitoring and control, as well as design and programming are predicted to emerge in

24 Skingle, H. (2021) ‘The 6 Fastest Growing Sectors of 2020’, Beauhurst Blog, 06 January, The 6 Fastest Growing Sectors of 2020 | Beauhurst

25 See World Economic Forum (2016) ‘The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution.’, https://reports.weforum.org/future-of-jobs-2016/employment-trends/

the top ten skills required by 2025. The same report estimates that 1-2 months are needed to retrain for sales, marketing and content writing skills, with 2-3 months needed for the areas of product development, data and artificial intelligence. Lastly, 4-5 months is estimated to be the required time to learn cloud computing and engineering skills.[26]

Overall, the key takeaway is that digital skills are a) in high demand, and b) surprisingly quick to acquire. Further, midcareer job training is essential, with the future job market likely to challenge current educational and workforce training models, as well as traditional commercial internal retraining and skill-building schemes.[27] Digital skills are therefore c) long-term growth-oriented. These three conditions render a growth strategy focused on enabling digital upskilling necessary and potentially highly fruitful.

Regional focus

There is a marked productivity gap between UK regions. In 2016, the value added per worker was 13% lower in the North than the UK average, and 25% lower than the South.[28] Past policy approaches to addressing regional economic imbalances have often relied on top-down logic that largely ignored these divergences. As part of the 'Northern Powerhouse' strategy for instance, the government identified four key impediments to productivity in the North: infrastructural connectivity, skills, enterprise and innovation, as well as investment.[29] This is linked to the key debate in regional economic policy between demand- and supply-side problems: are there regional imbalances in the availability of employment opportunities or in the qualifications of unemployed workers?

The digital working plan

The policy proposed here envisages a three-part approach to boosting growth and alleviating infrastructural difficulties in 'left behind' regions.

First, we should provide education vouchers for training courses from accredited institutions and private course providers. To increase growth,

---

26 Ibid.

27 McKinsey Global Institute (2017) *Jobs lost, jobs gained: workforce transitions in a time of automation*. p.3.

28 HM Treasury (2016) 'Northern Powerhouse strategy.', p.7, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/571562/NPH_strategy_web.pdf

29 Ibid.

it is crucial to enable people to receive horizontal training opportunities to meet changing demands of the employment market. Giving them the opportunity to complete short vocational courses in digital skills from private-sector course providers (for example, coding schools) would address the need to retrain workers and to assist adaptation to technological change. To promote respect for regional specificities over top-down approaches, educational vouchers would empower workers to maximise their individual potential. Further, it is imperative to reduce the red tape and bureaucratic hindrances in the application process. Subsidising mid-career vocational digital education in private-sector programmes can boost growth in 'left-behind' Britain and promote an entrepreneurial mindset in the future-oriented digital sector.

Concretely, I propose a pilot scheme be established for six months in five selected 'left-behind' communities with well-established digital connectivity links in order to observe economic and social impacts of the programme, as well as the theorised trickle-down effects into local economies. This would progressively be rolled out more broadly into key disadvantaged and deindustrialised areas.

Second, as internet access is crucial for accessing vocational digital short courses, broadband access in a modern digital economy is a crucial public good. In line with the current political agenda, the government should pursue developing fast rural broadband, in particular by expanding the eligibility criteria of the Gigabit Broadband Voucher Scheme, linking it to participation in digital skills short courses.

Third, employment regulation should be relaxed in order to facilitate individual circumstances and living contexts. Remote working has undergone a dramatic increase during the pandemic and is likely to play a permanent part in future employment. Current legislation around flexible working is fairly rigid. Outside of a pandemic, all employees currently have the legal right to request flexible and remote working by submitting a statutory application. They must have been working for their employer for at least 26 weeks in order to be eligible.[30] Employers are currently at the thicker end of the stick – they are within their rights to refuse an application if they can find, as it is vaguely formulated, 'a good business reason'[31] to do so.

30 https://www.gov.uk/flexible-working
31 Ibid

Relaxed legal infrastructure to support flexible work arrangements is necessary to accommodate individual circumstance, empowering stakeholders and jobseekers to maximise their potential.

Remote working in rural areas can further promote redistributive effects, seeing remote workers spending wages locally that are earned from companies situated in big cities, in turn revitalising local economies and high streets.

Conclusion

In summary, economic development must be tackled with a local and regional focus, with local stakeholders given the tools to maximise their potential. Making access to educational training opportunities dependent on geographical living circumstance may be associated with these principles.

This policy proposal incentivises growth by providing training opportunities for digital working, accompanied by the required digital and legal infrastructure. It promises both short-term and long-term growth as well as significant returns on governmental investment, whilst endeavouring to give a leg-up to those regions that need it the most.

This cost-effective plan will improve skills to achieve inclusive growth, drive innovation in high-value growth sectors and have tangible positive trickle-down effects into local economies and high streets. It will encourage a positive mindset, reduce barriers to entry into the job market and advance the needs of urban employers and rural employees alike.

For further details, contact Erik at erik.paessler@protonmail.com

‘Envisage’: a locally administered points-based immigration scheme

Robert Sutton

The UK is not a homogeneous labour market. Regional skills shortages are a major factor which could hold back levelling up. According to a recent report[32]:

> In the East Midlands, like in most regions, nursing has the most hard-to-fill vacancies … The East of England has the longest list of shortage occupations, and these include medical practitioners, nurses, design and development engineers, veterinarians and business executives … Solicitors and legal professionals are in particular short supply in the South West … There are notable engineering shortages in the West Midlands … Yorkshire struggles to recruit electrical engineers, IT operations technicians and child and early years officers.

Local government is better placed than national government to identify the needs of labour markets. They are better attuned to the local political, social and economic picture and should be given a stake in procurement of labour through reformed immigration policy.

In seeking a balance between national government control of overall immigration, identification of local economic needs and the preservation of individual freedom in choosing where to live and work, my proposal

32 See Skills shortages and COVID-19 | Prospects.ac.uk.

takes inspiration from mechanism design and modern auction theory.[33] Amending the design of an immigration policy does not need to be a zero-sum game.

My scheme allows local governments to lead by setting sector-specific points thresholds to reflect local labour demands, while allowing prospective visa applicants to prioritise different locations for work. The UK government, serving as a broker between local authorities and individual visa applicants, effectively facilitates a reverse auction to allocate visas. The process minimises arbitrary national government intervention and empowers local communities to take those policy decisions which will make levelling up a reality.

'Envisage': an overview

The proposal allows them to meet the demands of local labour markets and drive economic renewal. As a points-based system it fits well with the UK Government's current framework.[34] Points could be awarded for: holding a job offer, English language proficiency, salary, and educational attainment level. While points are assigned by a common framework, the points threshold for a given sector would be set by local government. The scheme works as follows:

*1. Central government assigns any regional conditions***.** At the start of each round, the government may choose to assign conditions to each region (although this is not necessary). Such conditions might include regional caps on visas to allow greater control over net immigration within the UK or to prioritise certain regions. The regions considered in this model are government office regions, but the principle could be applied at different levels such as unitary authorities.

2. Local governments submit sector-specific points thresholds, considering evolving local labour market needs (a new hospital, car manufacturing plant or business park) and the results of previous allocation rounds. These thresholds are not seen by other local authorities or visa applicants until after the round is complete.

---

33 *Envisage* takes inspiration from modern auction theory and mechanism design, recognised by the award of the 2020 Nobel Memorial Prize in Economic Science to Paul R. Milgrom and Robert B. Wilson. The Prize in Economic Sciences 2020 - Press release (nobelprize.org)

34 See Home Office statement 19 February 2020 The UK's points-based immigration system: policy statement.

3. Visa applicants submit rank-ordered preferences. Simultaneously, visa applicants submit a rank-ordered list of regions where they would prefer to work.

4. Ordered ranking performed. After a round closes, national government applies an allocation algorithm to assign region-specific visas to applicants. The highest-ranked applicants are assigned visas first and allocated to the highest ranked region for which they have sufficient points. Applicants and local authorities are informed of the outcome of the allocation process.

For those successful in obtaining a visa but not yet holding an offer of employment, there should be a 12-month time window in which work must be found within that sector and region. From the date of starting work, the condition that it must be within the region of first allocation lasts for 24 months – after that point, the sector- and region-specific conditions for ongoing employment would be relaxed.

The mechanism design requires a feature to prevent all regions submitting low bids to boost their labour market and thereby creating a 'race to the bottom.' One simple solution would require the total number of points assigned across the top ten or twenty sectors be conserved –any lowering of a visa threshold for a given sector must be met with a corresponding increase in another sector. Such a constraint would ensure that any changes to a visa points threshold must be carefully considered and truly in the best interests of that region.

The assignment process is straightforward, meritocratic, and sensitive to local demands. It simultaneously optimises applicant preference and regional labour market demands. First, visa applications are sorted according to job sector, and within each job sector, the applicants are ranked from most points to least points. Then, working down the list, each applicant is assigned a visa for the highest ranked region according to their preference list for which they have sufficient points

Conclusion

‘Envisage’ minimises central government interference and allows local communities to chart their own path to prosperity by giving direct influence over the international flow of labour. It is meritocratic, assigning to visa applicants the region of highest preference for which they have sufficient points and giving preference to applicants with more points. Central government is simply a neutral broker, collecting information and performing the allocation process.

There is no need for regular reviews of sector shortages by a centralised committee. Such reviews are performed automatically and coupled to the incentives of local governments who set the sector-specific points thresholds. There is no need for a Whitehall office to try to guess what sectors a region might prioritise – regions can do this themselves, directly.

The political effectiveness of this is coupled to the incentives of both the local and national government. At a local level, the incentives of political leadership to satisfy constituent demands requires that the bidding process is effectively administered, and that constituent demands are accurately identified and acted upon. At a national level, the policy insulates the Westminster government from criticism of its immigration policy (as it is administered locally) while making maximum use of greater controls on immigration in a Global Britain.

For further details, contact Robert at *rob.sutton@parliament.uk*

The Institute of Economic Affairs
2 Lord North Street
London SW1P 3LB
Tel 020 7799 8900
email iea@iea.org.uk