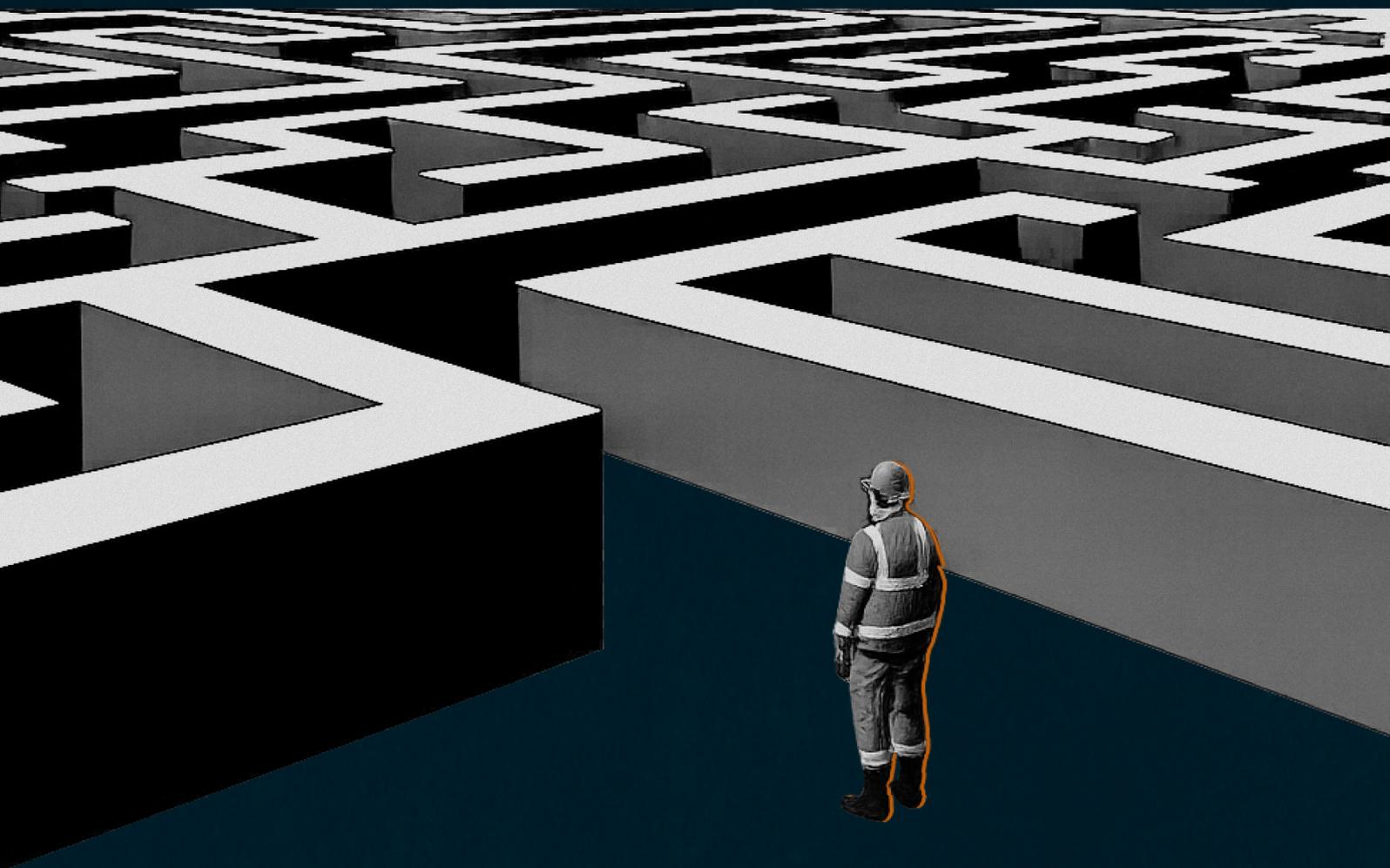


London Symposium on Economic Dynamism

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# Do Dynamic Societies Leave Workers Behind Economically?

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# Do Dynamic Societies Leave Workers Behind Economically?

When discussing dynamism, innovation, and disruption, and whether free trade or technological progress drive them, the conversations are often framed around protection: they are concentrated on helping those left behind. The frame accepts that disruption and dynamism are good on average but assumes also that we need to manage and treat both with a degree of suspicion. It assumes that we should not work immediately to maximize dynamism.

In the context of workers, the debate is typically framed around whether we need a state-funded retraining program to re-skill workers who lose their jobs due to various causes, including trade from China, or whether we need to redistribute revenue from London and the South East to places hard hit by economic shifts. I am a realist on that question. I do not pretend that a more dynamic economy is a completely, unalloyed good; there are negatives. It is painful for both the owner and the employees when businesses close. And in the case of communities that rely on a single business or industry, closures can shift entire towns or regions. But I think we have overcorrected too much; we have started to treat dynamism with too much suspicion. We underrate dynamism and overrate stasis, even though stasis harms workers and the least well-off the most while dynamism leads to economic growth.

Recently the nonpartisan campaign group I work with, Britain Remade, partnered with the trade union called Community. In the context of dynamism, we often think that trade unions' role is negotiating economic disruption when it appears on the horizon. Unions figure out how decrease harms to workers by securing member benefits, for example, or finding ways to mitigate layoffs caused by new technology. But there is another aspect: the biggest risk to many unions and the workers they represent comes from an inability to build and an inability to make building easier. We surveyed many of Community's members on issues that affect their lives, and a few ranked

very highly, including housing and energy costs. We found that eighty percent of respondents, for example, said that they were not heating their homes as much as they wanted to, due to high energy costs.

Britain's planning system, which prevents building in the U.K., is biggest source of this stagnation and lack of economic dynamism. The planning system, part of the Town and Country Planning Act, is the legal and regulatory framework governing U.K. land use, development, and construction. The housing system is the first sector affected. Britain's housing is expensive because our planning system has prevented us from building both upwards and outwards. Our energy is not affordable because of planning red tape, much of which is caused by environmental regulations. These regulations prevent us from adding new generation capacity, even when that new capacity would be the most green energy available. Transport links outside of the capital are also unreliable and slow, and the cost of building new transport is far higher here than in many other countries. These high costs, and the inability to build to relieve that burden, traps workers in low opportunity towns and prevents firms from expanding to lower cost areas outside of South East.

Here are some of greatest hits of Britain's planning system and the damage that system causes. A typical young couple would have to save for thirty years to make a down payment on an average London home. Renters live in crowded conditions; they have about twenty-five square meters of space per person, which is half what regulations allow you to build in a new London housing unit. One might speculate that London's lack of space and capacity causes that problem, but if you look across the country, the English as a whole have less floor space per person than Manhattanites do. The difference is close, but despite Manhattan's far greater density, the English are still stuck living in unreasonably small quarters.

England has a housing shortage problem. We know the planning system causes this problem, not a lack of land or, as one *Guardian* journalist once suggested, a brick shortage. We know this because land with planning permission surges in value. If the government grants planning permission to a given unit of land, its value increases. If it is agricultural land, its value increases by ten times or more in some parts of the country. In Britain's most expensive regions, the cost to buy a home already on the market is



around two to three times more than the cost of building a new home. If given permission, in other words, you would build, because it would be extremely profitable. This difference between the cost of buying a home or building one is a strong sign that the planning system is the binding constraint.

What about energy? Britain has the world's highest industrial energy costs; this is a problem for workers in industries exposed to energy prices. Britain Remade partnered with Community because bringing down industrial energy costs is the main interest for steel industry workers. Unions should be strong advocates for reforming planning policy to allow the proliferation of newer forms of energy. Our planning system, however, delays that.

Here are some examples. The offshore wind farm in East Anglia, known as East Anglia 2, powers around 800,000 homes when the wind is blowing at full capacity; it is not always blowing at full capacity, so that number is probably lower. To receive government planning permission to build East Anglia 2, Scottish power had to produce an 85,000- page planning application, with 12,270 pages dedicated to environmental issues alone. When the government finally approved the project, locals challenged it in court because they disliked the idea of having a landing station (the onshore facility where undersea power cables from offshore turbines come ashore and connect to the national electricity grid), which would get the power from the sea, in their community. They did not necessarily oppose wind power, but they hoped you could have one without the other, and that delayed building by almost a year.

There is also the problem of the lack of profit and loss in these lawsuits. If I were to sue you over a trademark matter, for instance, and you were to defeat me in court, not only would I have spent all that money on the case and lost, but I also would typically be required to pay your costs, because I'd have imposed costs on you that you otherwise would not have borne. In Britain, we cap that at £5000 for individuals and £10,000 for campaign groups and organizations. But some, including those on the right of the spectrum, view this as not friendly enough to people who want to challenge projects in court.

Scottish conservatives released a policy paper recently that suggested extending legal aid to people who speak up for their community. In essence, they proposed subsidizing legal cases

against developers building homes, pylons, nuclear power stations, and other infrastructure projects. You may have guessed by East Anglia 2's name that it is not East Anglia's first offshore wind farm. East Anglia 1 was originally going to be larger, but the builders scaled it down by forty percent because there was some evidence that the farm might cause one additional bird death a year. The people who opposed the project thought it was closer to thirteen bird deaths a year, but the community lost approximately 100,000 homes worth of generation capacity based solely on a speculative harm to a bird that regularly travels hundreds of miles.

But what about nuclear? Britain built the world's first nuclear power station, then we built ten more. Around 1965 we had more nuclear power stations than the rest of the world combined. We used to be good at building nuclear power stations, but we have not built one in thirty years. Hinkley Point C, the one we are building now, required a 30,000- page environmental impact assessment and is the most expensive in the world. Building has been delayed, in part because the E.D.F. (Electricité de France, which is the plant's primary developer and operator) spent the last five years debating the requirement to install speakers by the water-cooling intake pipe. These speakers would play jumbo jet level noises to deter fish from entering the intake and being sucked into the reactors. The E.D.F. and other regulatory bodies, including the Environment Agency, spent so long debating this issue that the technology around this requirement has advanced. The E.D.F. now prefers a cheaper, safer, and more effective high-frequency acoustic system with fewer speakers. Technological progress has transformed this from a very expensive requirement to install an annoying piece of tech, to a requirement to create something only mildly expensive, far quieter, and less disruptive.

Here is another example: building Hinkley Point C requires dredging, but a legal challenge to prevent the builders from dumping mud in a designated mud dumping site delayed the project by eighteen months. The challenge argued that the mud would be radioactive, even though, in truth, the mud would be no more radioactive than a banana. Even though the courts never believed the case had merit, it still took about a year to conclude the relevant paperwork. Once again, we did not add reliable, clean power to the grid that we could have.

And there are no signs of improvement. The government has signed off on money for



Sizewell C, for example, the next nuclear plant we hope to build. The plant's environmental impact assessment was 44,000 pages long—twice the length of the complete combined works of Proust, Tolstoy and Shakespeare.

Britain Remade reviewed every single nuclear project built since 2000: South Korea builds for one-sixth of our costs, France and Finland about half. If we could change the planning rules to get close to French or Finnish costs, we would be able to dramatically reduce energy costs for low-income people. We would also be able to extend the life of our energy intensive industries, including steelworks and chemical, glass, and cement plants by making energy available at lower costs. These industries typically employ people in specialized roles and when these plants close, it is often difficult for these technicians to adapt to new jobs. At best, lower cost energy could even lead to these industries' expansion.

Transport is another industry affected by the planning system. One of the U.K.'s big challenges is that our cities are ineffectively laid out. Adam Smith teaches that large markets allow for efficient division of labor. In general, bigger cities are more productive. The more people in an area, the more ideas they share and the more specialized their labor becomes. There are certain jobs that can only really exist in a city of a million or more people. Our cities appear large by population, but in practice, the lack of a mass transit system in most of them means that far fewer people can get to the central business district within thirty minutes by any mode (car, bus, train, or tram) than in comparable European cities. In terms of where you can get in a car, U.K. cities are even smaller than U.S. cities. Leeds, for example, is large city by population count and it is the largest city in Western Europe without a mass transit system.

But why do many large British cities lack mass transit systems? Cost is the answer: British infrastructure tends to cost a lot more than it should to build. Britain Remade reviewed three hundred transport projects across twenty countries and found that Britain builds trams at twice the cost of the European average. In many cases, the cost is even higher: we pay almost four times what the Germans do for trams, and about three times as much as the European average for a single mile of electrified railways track. High Speed 2 (Britain's ambitious, high speed railway infrastructure project) is nine times more expensive than a comparable French train line.

One of the problems with High Speed 2 is that most of the route is at least partially underground,

which makes building it expensive. Even in its many portions that are technically above ground, passengers are unable to see sunlight, because the train runs through a cutting or a tunnel. That high cost is therefore directly attributable to objections from residents along the route who do not want to see the train when they are going about their ordinary day. It is unfortunate, because one of the best ways to experience nature and beautiful landscapes is through train windows. Anyone who cares about increasing access to landscapes and nice views, should encourage building train lines through as much beautiful land as possible.

Here is another example of how difficult it is to build in the U.K. The government recently started funding to reopen a railway line from Bristol to Portishead that was closed in the 1960s. The line could potentially connect several suburbs to Bristol, which is a city with good university and an interesting, growing industry, especially around AI and technology. The track for the 3.3-mile line is already there, but portions of it need to be reworked, and the route needs some stations added along it. That project, which amounted to not much more than reopening a line, required an 80,000-page planning application.

In London, the government announced allocation to build a road called the Lower Thames Crossing. It will run from Kent to Essex, connecting Gravesend to Tilbury via a long road tunnel—long by U.K. standards, but not the world's longest. The cost of applying for a planning permission alone for Lower Thames Crossing was around £297 million, with £30 million spent on consultations. The government consulted the public for their opinion more than five times on this project. Remarkably, the overall cost for planning is more than twice the cost of building the world's longest road tunnel in Norway.

But is it fair to compare Norwegian tunneling to British tunneling? The Norwegians tunneled through a different type of rock and their population density is lower. But prior to beginning actual construction, regardless of geological differences, even before tunneling begins, the British have paid far more just planning the project. Even if we suddenly had a machine that allowed us to start work as soon as the planning had ended, and worked for free, we would have still spent more on our project than they spent on theirs. Building in Britain is extraordinarily difficult.

The lack of dynamism in our built environment hurts workers, because a broadly dynamic economy creates new opportunities. The rise



of tech, finance, and what Stian Westlake and Jonathan Haskel describe in *Capitalism without Capital: The Rise of the Intangible Economy* (2017), as intangible capital has changed our economy's shape, but we have not really adapted. Location is now more important than ever. Cities are a lot more important because jobs have become more specialized. There are jobs that did not exist in the past and now cannot exist outside cities. A data scientist specializing in a narrow technological field cannot live in a village because he would not be able to find an employer who could maintain his expertise. Even if a job did become available, if the specialized worker was not hired for that role for whatever reason, his skills would be completely idle.

These jobs can only exist in cities, but Britain's cities are unable to accommodate new workers. We build too few homes, which pushes rents higher, and not only eats into incomes, but drives people away. High rents have erased nearly the entire income advantage of working in the capital, which is Britain's most productive region. If you live in the capital, where your wages are the highest they could be, that does not mean your after-housing income is much higher than it was when you lived in other parts of Britain. Your productivity in terms of wages will increase about fifteen percent from moving from somewhere in the average part of Britain to London, yet once you factor in housing costs, your take home increases by only one percent.

In the past, cities where productivity was highest were able to rapidly expand. If you look, for example, at somewhere like Burnley during the Industrial Revolution, it grew from 3,305 to 97,000 people. Blackburn and Preston went from under 12,000 to over 100,000. During that period, London went from one million people to a city of six million. London's economy is strong, but it is adding jobs faster than it can add homes, so the result is long commute and high prices. Young people from poorer backgrounds cannot move to the city and take advantage of dynamism's benefits.

There are places that could be the new Burnley. Cambridge has a great university and many strengths that are important in a modern economy, but its population is just 150,000 when it could be 500,000. Planning permission to build a reservoir is difficult to get, as is planning permission to build homes on the surrounding agricultural land. As a result, the lack of water and housing stunts Cambridge's growth and prevents many people from sharing in the benefits of change these big opportunities offer. Landlords, for example, who own in a valuable area, receive a smaller

profit than they otherwise would because they are unable to develop their land. Other workers and innovators are priced out of moving to these high opportunity areas. The result is a massive deadweight loss, where things that should be positive-sum, such as innovation, growth, higher productivity, and wealth, are never realized.

There is a further complication. Traditionally, mobility used to be higher among lower paid workers: people moved because of economic stress. Most people who live in the Northern U.K. today probably descend from people who moved there because of opportunities created by the Industrial Revolution and because there were few opportunities in other parts of the country. But this is inverted now: if you are a graduate with a job in a high skilled profession, you are likely to earn more money if you move to the U.K.'s most productive areas. Some people's incomes are high enough to dwarf the cities' higher housing costs. For people with low incomes, however, and particularly because we have a very compressed wage distribution towards the bottom due to relatively high minimum wages, there is no advantage gained by moving from somewhere with high unemployment rates that is facing economic decline, to somewhere where there is higher rates of productivity and more job opportunities.

The result is skill biased emigration in the opposite direction. It is a tricky problem to escape. Towns fall behind, not just because they do not benefit from technological changes, but because they face an even more challenging problem: they are losing the most skilled people, and the skill distribution in the remaining labor market heavily skews towards the middle to low skill bracket. There is no managerial talent. We must make it easier to build so people across the income scale can move to those higher opportunity areas. If we do not, the problems in those areas left behind by technological change will increase, leveling up (the U.K.'s push to close the gap between rich and poor regions) will fail, and regional inequality will get worse.

We need a more dynamic economy that can help workers by allowing them to move where they can best use their skills. The problem of skill biased immigration has been framed around those regions as being dynamism's victims. But the problem more accurately is not that some people in those areas can access the benefits of that dynamic economy, but that not all can. That is what we need to change.



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