Time to spend cheap money

Our cities are not over-built—they are under-demolished

Nigel Wilson

There has never been a wider gulf between London and our other major cities: Birmingham, Liverpool, Manchester, Sheffield, Leeds, Newcastle, Bristol, Edinburgh and Cardiff. From 2009 to 2014, London's Gross Value Added grew by 29 per cent per head, Cardiff's by only 11 per cent.

Manchester was once the world's most prosperous city. But since the mid-1980s London has stormed ahead. We have not emulated the United States where Chicago, San Francisco, Boston, Austin (Texas) and others complement and counterbalance New York, or Germany, where Frankfurt and Munich are just as proud and prosperous as Berlin.

Urbanisation is critical. The government spends £750bn annually, its deficit is £75bn, and its total liabilities are £3.3 trillion. This is unsustainable without growth in productivity and output, and the greatest multiplier comes from investing in cities. This requires inspired local political leaders backed by industrial-scale investors.

Devolution to city-regions is a huge positive as it empowers local politicians to have bold visions and take big decisions. Many of our cities aren't over-built, they are under-demolished, and regeneration means starting over again. Legal & General's own experiences in cities including Salford, Cardiff and Leeds, where current regeneration projects have a combined value of over £3bn—is positive proof of this.

Real power will ensure that talent thrives in local government. In the 19th century, local government produced some of our most enlightened thinkers and doers: Cobden and Bright in Manchester, the Chamberlains in Birmingham and so on. Our Victorian town halls are worthy monuments to ambition, purpose and civic pride.

I would give devolved local government even more control over local tax and spending. This means retaining business rates, and taking charge of health commissioning—Sir Howard Bernstein in Manchester is a real pioneer here. In the longer-term, it could mean much greater autonomy for local business taxation and the creation of a municipal bond market for big projects.

Economically and socially useful ideas are already emerging. Salford, under its superb Mayor Ian Stewart, has Media City—we need science cities and tech cities too. Great universities need to collaborate with local government to make it happen. Cambridge is becoming a Pharma City, and one of the best recent ideas I have seen is to develop Newcastle as a global leader in research on ageing, regenerating the city centre around the university's medical expertise.

Good ideas should attract investment, but Quantitative Easing was designed by the rich, for the rich: it drove up the price of existing assets rather than creating new ones, and there has never been so much money available as today. In a world trending to zero—zero growth, zero inflation, zero interest rates—we must put investment, growth and productivity front and centre: if we can't invest when interest rates are at all-time lows, when can we?

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Legal & General intends to invest £15bn in UK infrastructure and real assets, including regenerating cities and creating new housing. We have invested £7bn already, and where we go, others can co-invest or follow. The projects we favour are those in the £100m-£1bn range, which produce steady income over a long period (up to fifty years) and which provide a local economic multiplier effect of two to three times for physical infrastructure, more for digital. They can be delivered in years, not decades and unlike the more grandiose multi-decade projects, they create real jobs and growth on a realistic timeframe rather than jobs mainly for planning consultants.

Housing across all forms of tenure is a crucial part of the mix: build-to-sell, build to rent and affordable housing for key workers. All three can be created and financed with institutional money. Our pipeline of houses to build or finance now consists of 75,000 homes, of which 25,000 have been built. There is more to come, including modular-built homes which will revolutionise construction, and institutional-scale build-to-rent alongside our Dutch pension-fund partners, PGGM.

Creating the right infrastructure is one way to enable cities to flourish. Companies large and small also need to invest more in local economies to drive productivity, jobs and growth in cities and city-regions. Start-ups and growth companies in particular need a stronger equity culture to provide long-term finance—we have too many start-ups, not enough "grown-ups" in Manchester and Newcastle. Too many small companies fund themselves with debt, and over 50 per cent of the smallest companies finance themselves on credit cards. One solution is to reduce the tax differentials between debt and equity funding, and there was some progress on this in the Budget.

Another key measure would be to strengthen local mentoring and support from professional services firms—far too much of their work is now focused on regulation and is economically unproductive. It would be far better for our bright accountants to be focusing on identifying future growth companies and helping them to achieve success.

Many of us share a vision of a future UK of high-tech, digital, environmentally friendly cities, growing under inspired political leadership and contributing to a much better-balanced economy. This is within reach: but only if we act now to put plentiful, cheap money to work investing in productive infrastructure and commerce, delivering the benefits we have seen in London across the country as a whole.

Nigel Wilson is CEO of L&G