

Increasing UK productivity through city support

There are significant geographical differences in UK productivity, which largely may be caused by differences within cities' industry sectors – such as the amount of start-ups and innovation.

Policy implications

- City councils' business support schemes should provide particular support for high-productivity 'frontier firms', for instance through reduced business rates or commercial lease support.
- Earmarked funding on a national level could stimulate productivity by offering local government funding support for attracting a range of firms in different sectors, including 'frontier' and exporting firms.
- Local government should co-operate on a regional level, co-ordinating business facilities (such as industrial parks and business centres) and providing effective joined-up transport and IT infrastructure.

About the research

In the UK there is concern not only over the slowdown of national productivity, but also over significant geographical differences in productivity, especially between London and other cities. The government's Industrial Strategy has increased emphasis on geographical location and context to improve productivity. Research shows that UK cities differ in growth rates in employment and per person incomes – largely due to differences in their economic structures and business diversity, their previous dependence on industry and varying success in building a service-based economy.

A key factor in understanding the economic performance of cities is the issue of 'structural change' – how changes in local economic structures over time will affect economic growth and productivity. How cities' productivity differences are linked with structural change could have implications for policies aimed at raising productivity.

The triggering of Article 50 to leave the European Union makes it more urgent to improve the productivity of the nation's cities and regions, as they could face tariffs on their exports to Europe and will need to compete in other overseas markets to export their goods and services.

The research paper *Structural Change and Productivity Growth in Cities* explores what has been happening to productivity growth in 85 British cities since the beginning of the 1970s, and how much these productivity differences



About the research - continued

are caused by changes in the cities' economic structures. The analysis reveals that differences in productivity growth across most British cities are primarily caused by productivity developments *within* industry sectors, more than by overall structural change.

Key findings

- There is a growing imbalance in the productivity performance of cities, with potentially serious implications for spatial inequalities in Britain.
- There was a general trend of British cities achieving similar productivity levels between 1971 and 1991. Since then convergence has stopped and differences in productivity have slightly increased again.
- Growth has been dominated by productivity developments internally within individual industries, rather than by structural change (transfer of employment and output across industries).
- The within-sector variation in productivity is likely caused by two key factors:
 - The 'recomposition' effect: a higher rate of firm start-ups in a local area leads to faster productivity growth, as new firms tend to have higher productivity than those that exit or are closed.
 - Surviving firms' changes in technology and organisation – typically shaped by the intensity of competition from other firms, regulations and institutional context.
- In many industries, market share is dominated by a small minority of 'frontier' firms with high productivity, complex organisation, and better product quality and range.

Differences in productivity between UK cities are primarily caused by developments within industry sectors, not by city-wide structural change.

BRIEF DESCRIPTION

Researchers from the ESRC-funded City Evolutions project have examined productivity growth paths of some 85 British cities for 82 activity sectors for the period 1971-2014, and explored how these paths are affected by changes in the cities' economic structures.

R Martin, P Sunley, B Gardiner, E Evenhuis and P Tyler: *Structural Change and Productivity Growth in Cities*

Web: www.cityevolutions.org.uk/working-paper-structural-change-and-productivity-growth-in-cities

FURTHER INFORMATION

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The research for this paper was undertaken as part of the City Evolutions project, funded by the ESRC through the Urban Transformations programme.
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