

Growing Apart?

The Economic Performance of British Cities

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Nations are not the key economic units, rather cities are...
National economies can only be understood in terms of the
growth (or decline) of their constituent cities
(**Jane Jacobs, *Cities and the Wealth of Nations*, 1984**)

The economy as a whole is simply too big, too remote from
ordinary experience, to grasp. Is there any piece of the
economy that can truly help us understand the whole? I
suggest a somewhat unusual answer, but one that is
growing in popularity amongst economists: that a
particularly good way to understand [the] economy is by
studying [its] cities (**Paul Krugman, *Pop Internationalism*,
1996**).

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- Increasing recognition of the role that cities play in the nation's economic growth
- At same time, political concern about the spatially imbalanced nature of the national economy
- Debate over the effect of London on rest of nation: economic 'black hole', or 'dynamo of national economy'?
- Government wants to boost northern cities
- Northern cities themselves want more financial and political power

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- How have British cities been growing?
- In USA, increasing evidence that cities have been diverging in economic performance, eg:
 - Storper and Kemeny (2014) *Divergent Cities*
 - Moretti (2013) *The New Geography of Jobs*
- Raises questions about what determines city growth
 - Does size matter?
 - Does specialisation matter?
 - Does human capital matter?
 - Does governance matter?

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- **Does Size Matter?**

- Debate captured by NEG and NNUE theory
- Agglomeration key in these models
- Increasing returns and endogenous effects associated with agglomeration raise productivity and growth
- Hence larger agglomerations should grow faster than smaller ones – ‘Bigger is Better’
- Argued to be demonstrated by London
- Second tier cities – Manchester, Liverpool, Birmingham, Sheffield, Newcastle, etc, argued to be ‘too small’
- Would grow faster if bigger

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- **Does Size Matter?**

- Also argued in these models that:
 - Spatial agglomeration of activity and workers in large city-regions – spatial economic imbalance - both **market driven** and **equilibrium** outcome
 - Spatial agglomeration **raises** national growth
 - Case for policies to promote more spatially balanced economy thereby questioned – notion of ‘**national efficiency-spatial equity tradeoff**’
 - Policy should focus on **people** (skills) rather than places – ‘spatial sorting’ of people will attract skilled to successful places

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- **British City Growth Evolutions**

- Analysis undertaken for Government Office for Science's Foresight Programme on *The Future of Cities*
- Time series constructed on GVA and Employment for 63 British cities (PUAs), for 46 sectors for 1981-2011
- Used to investigate growth patterns, role of economic structure, city size, specialisation
- Wide variations in growth paths of these cities, in output, employment and productivity

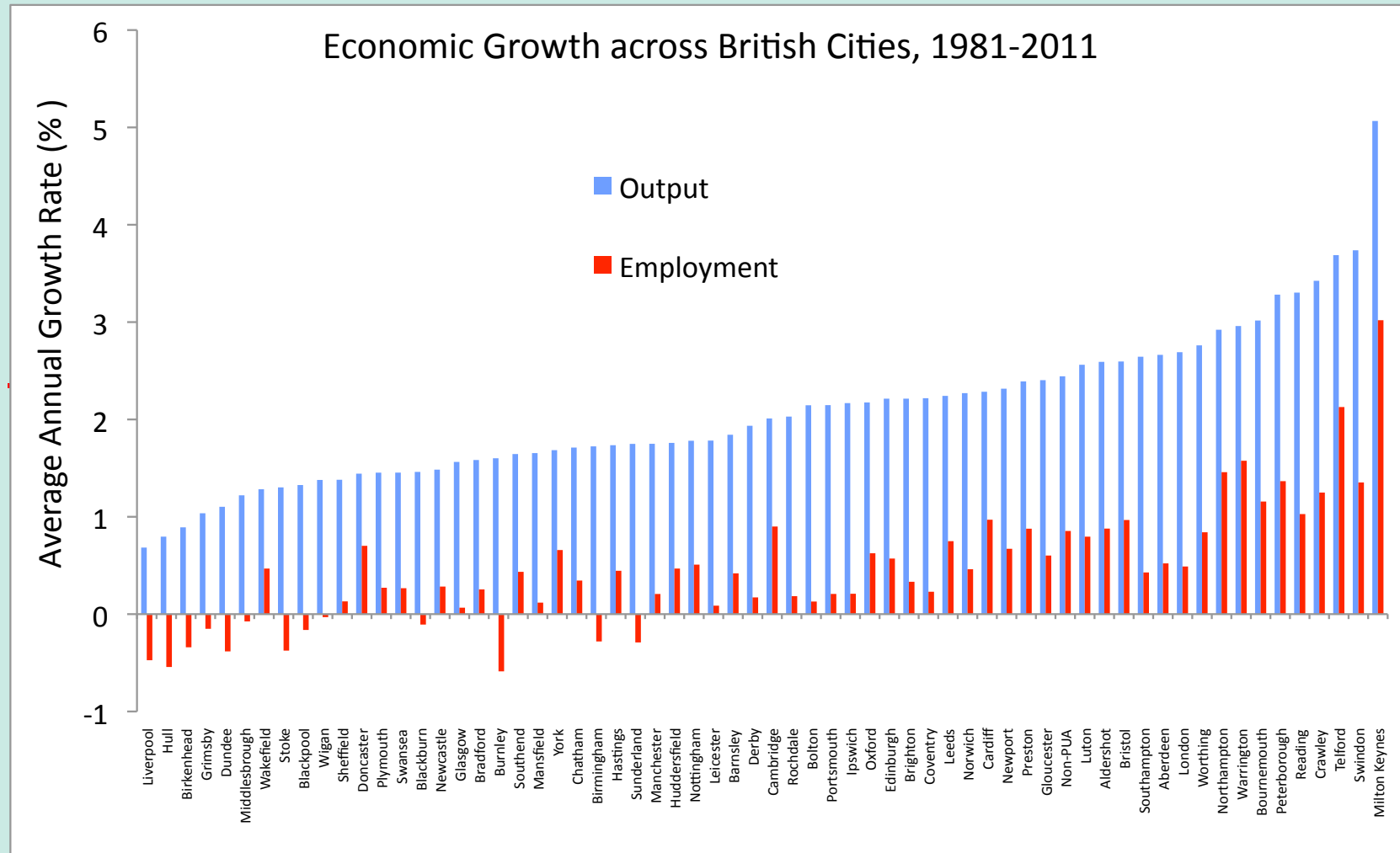
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- **British City Growth Evolutions**
 - Smaller cities have grown faster than larger cities
 - Most southern cities have grown faster than most northern cities
 - Most city growth is highly path dependent
 - But some 'turnarounds' - both positive and negative
 - London is a prime case - one of slowest growing cities up to end of 1980s
 - Since then has improved its growth rate substantially

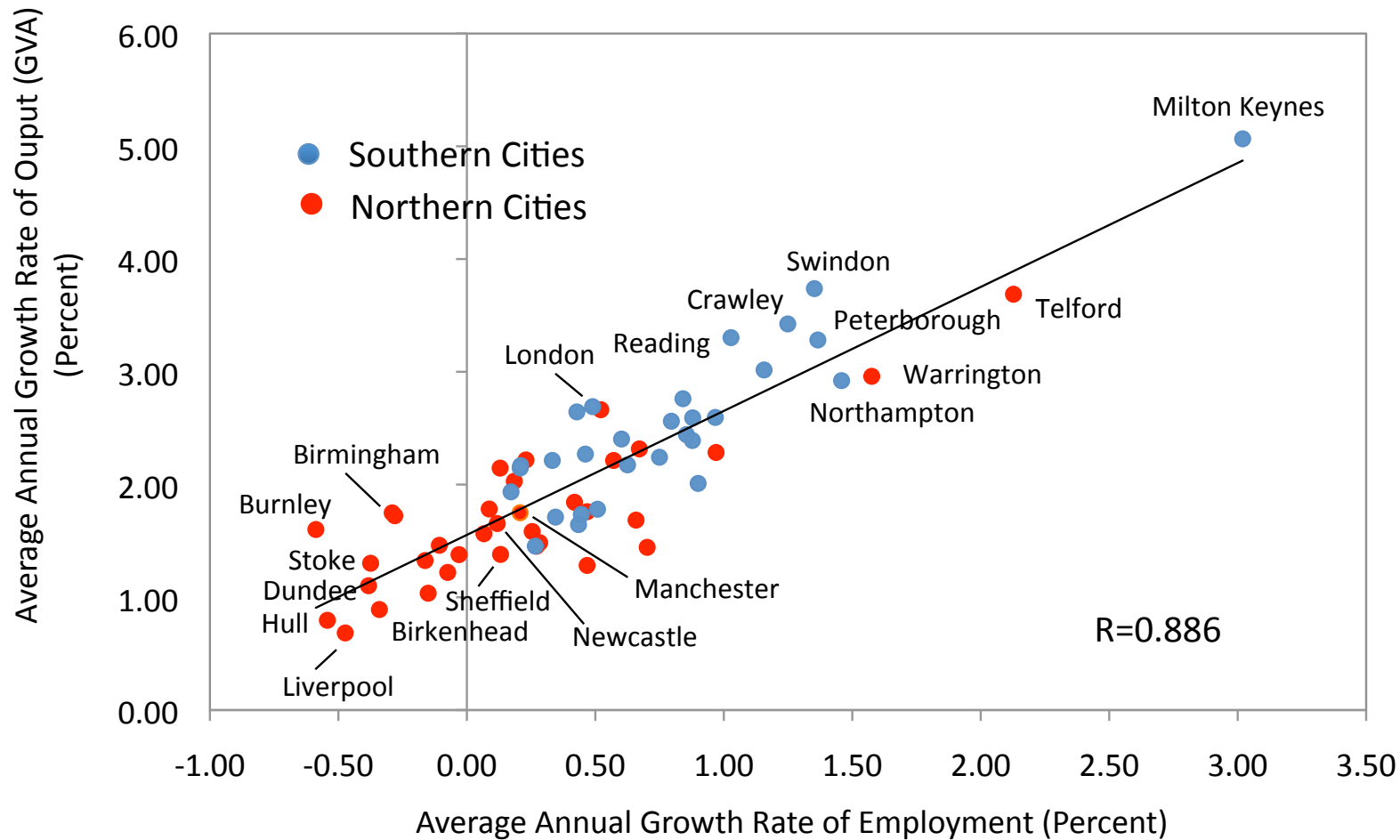
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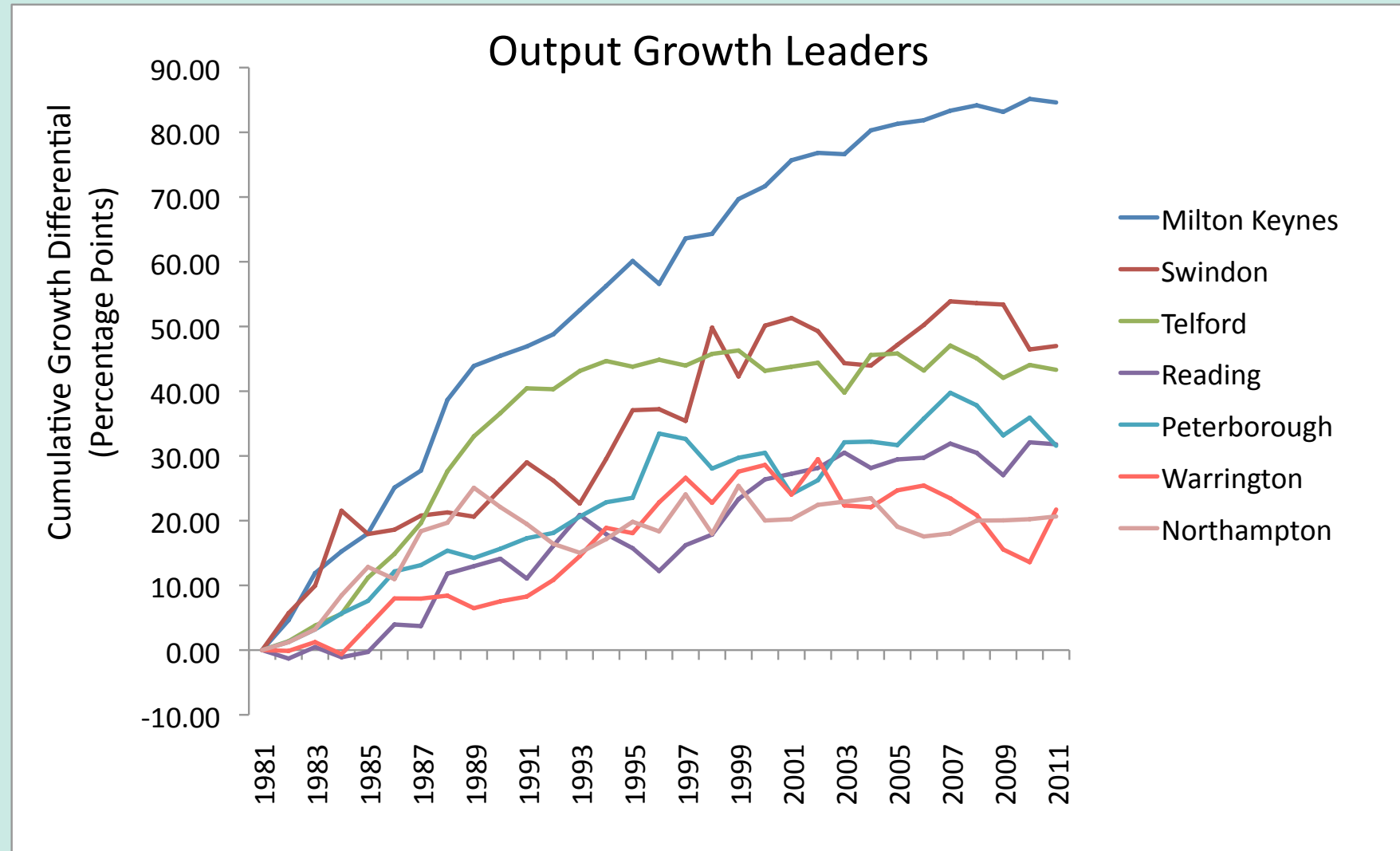
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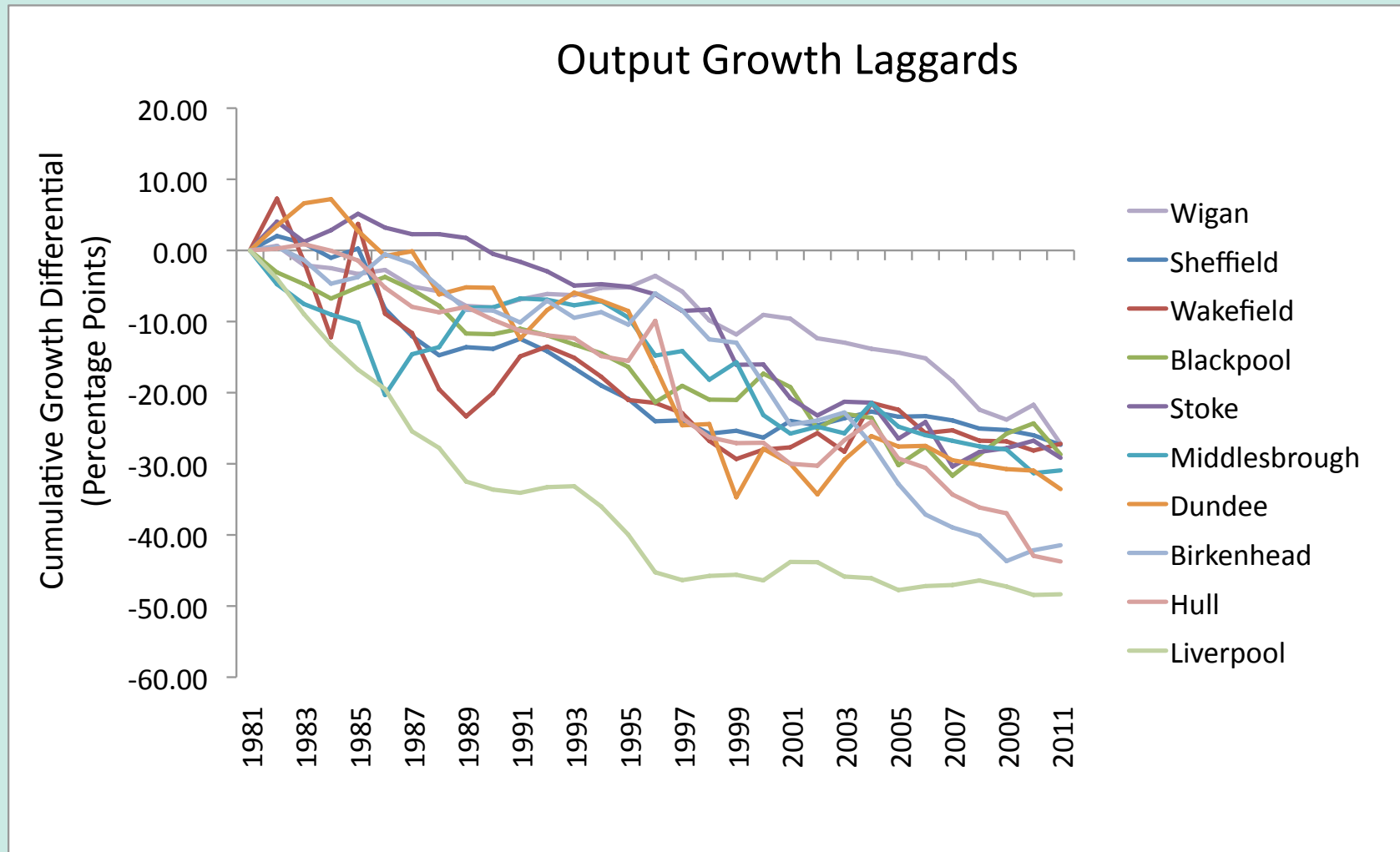
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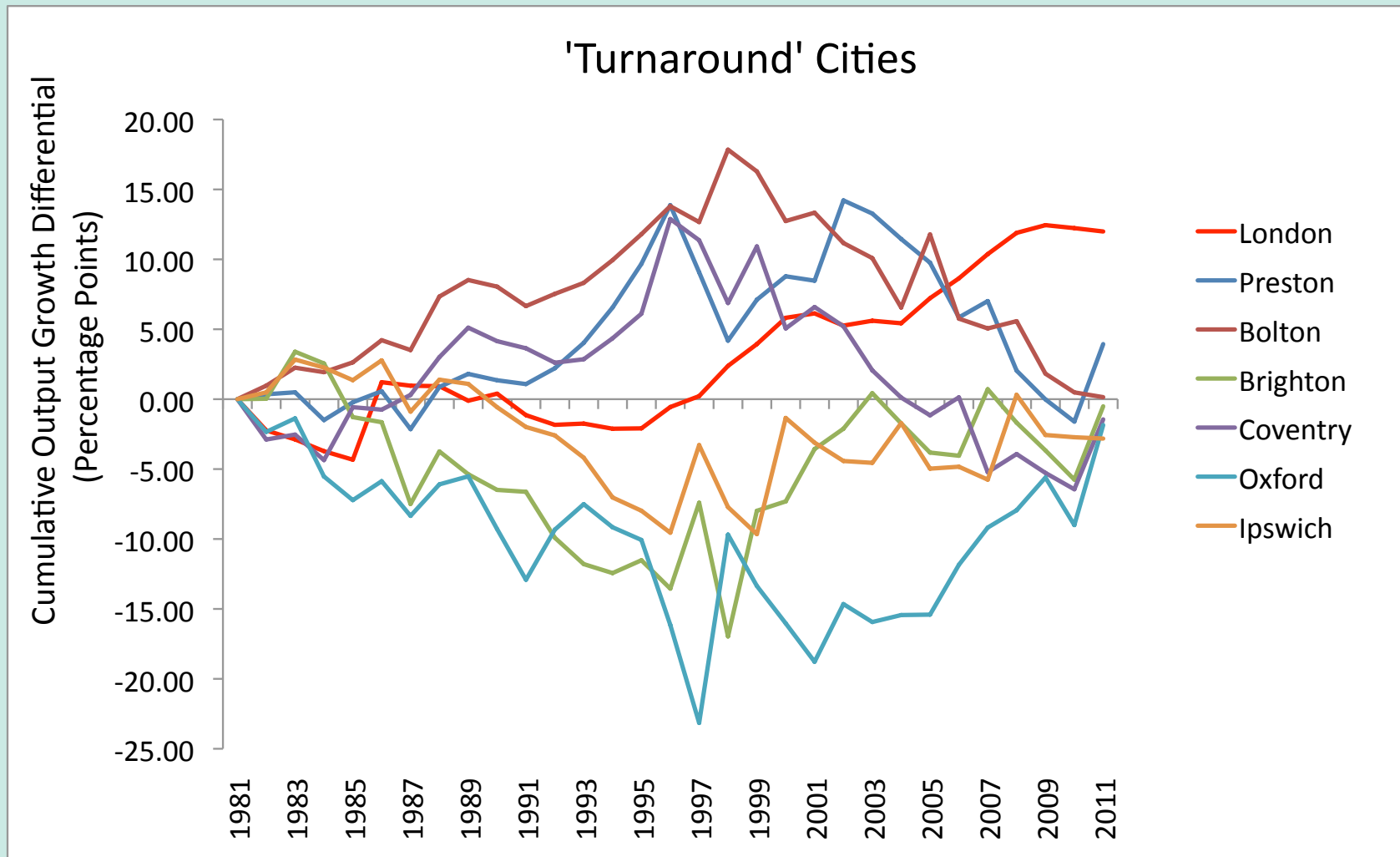
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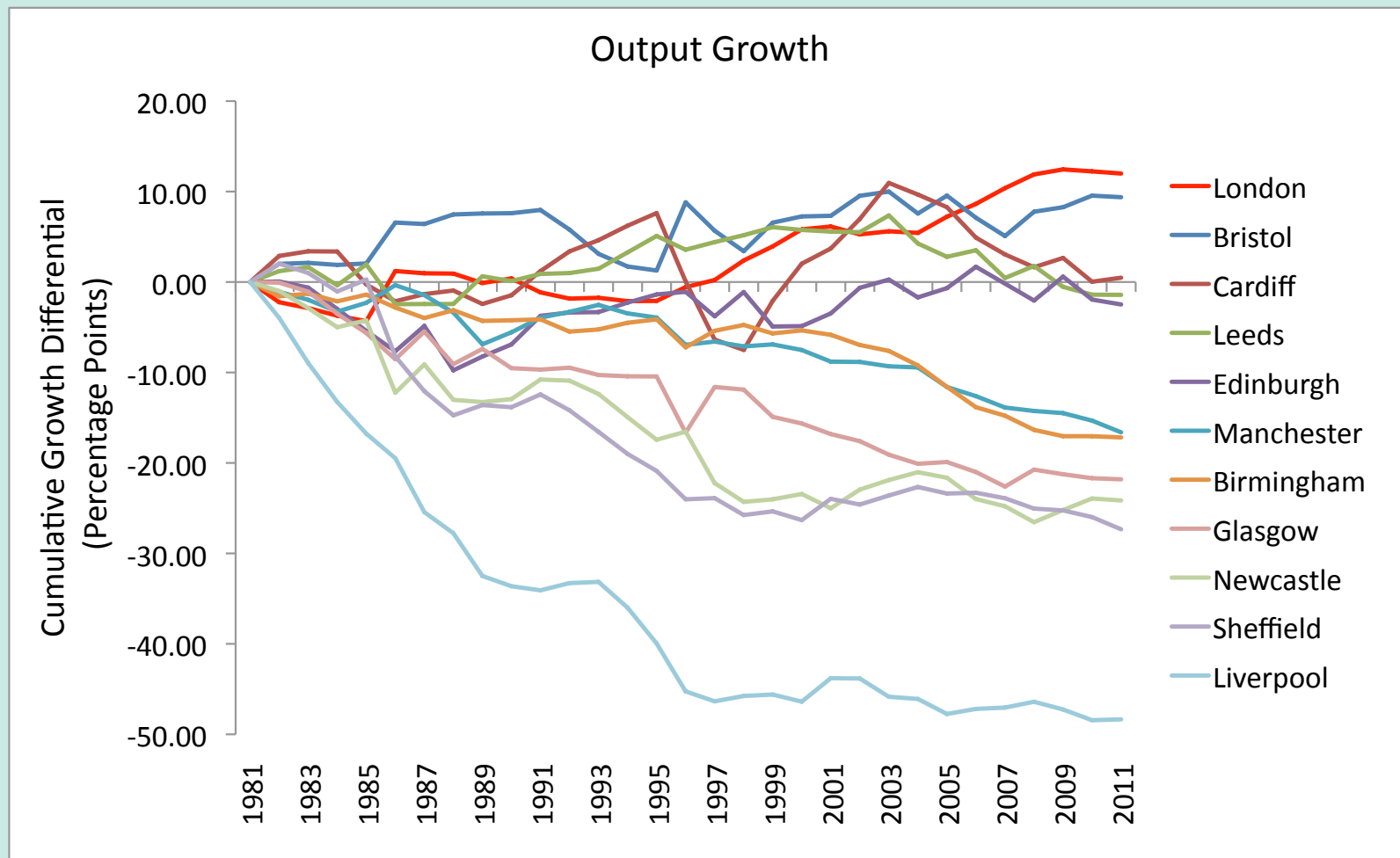
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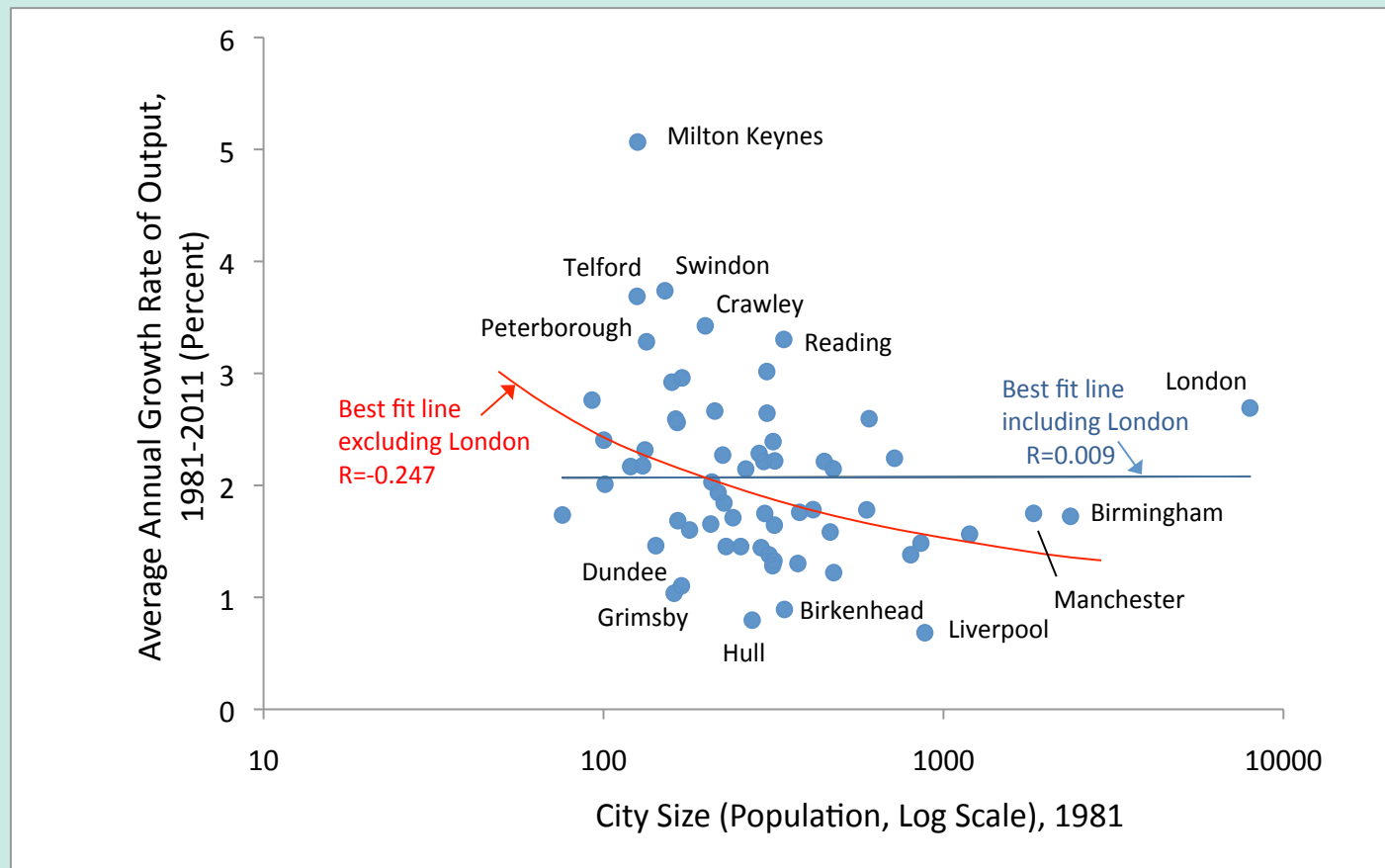
- Agglomeration and growth – Core Cities



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- Agglomeration and growth
 - Biggest cities have not grown faster



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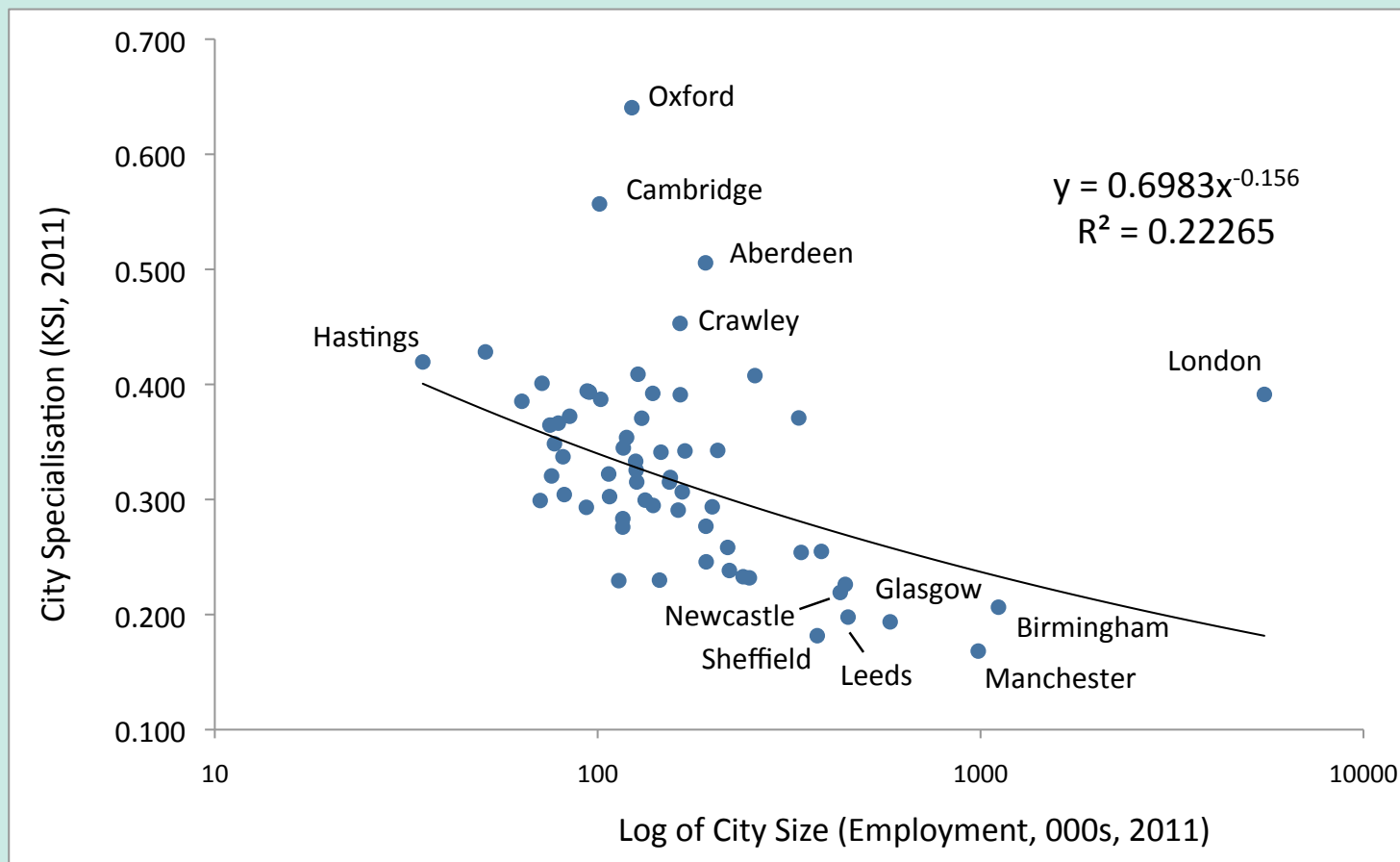
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- **Specialisation and City Growth**
 - According to some analysts (eg Storper, 2013) specialisation is *the* motor of city growth
 - But in UK, little relationship between specialisation and growth
 - Larger cities are more diversified structurally
 - Cities have converged in economic structure
 - Economic structure explains only part of city growth
 - City specific ('competitiveness') component often more important

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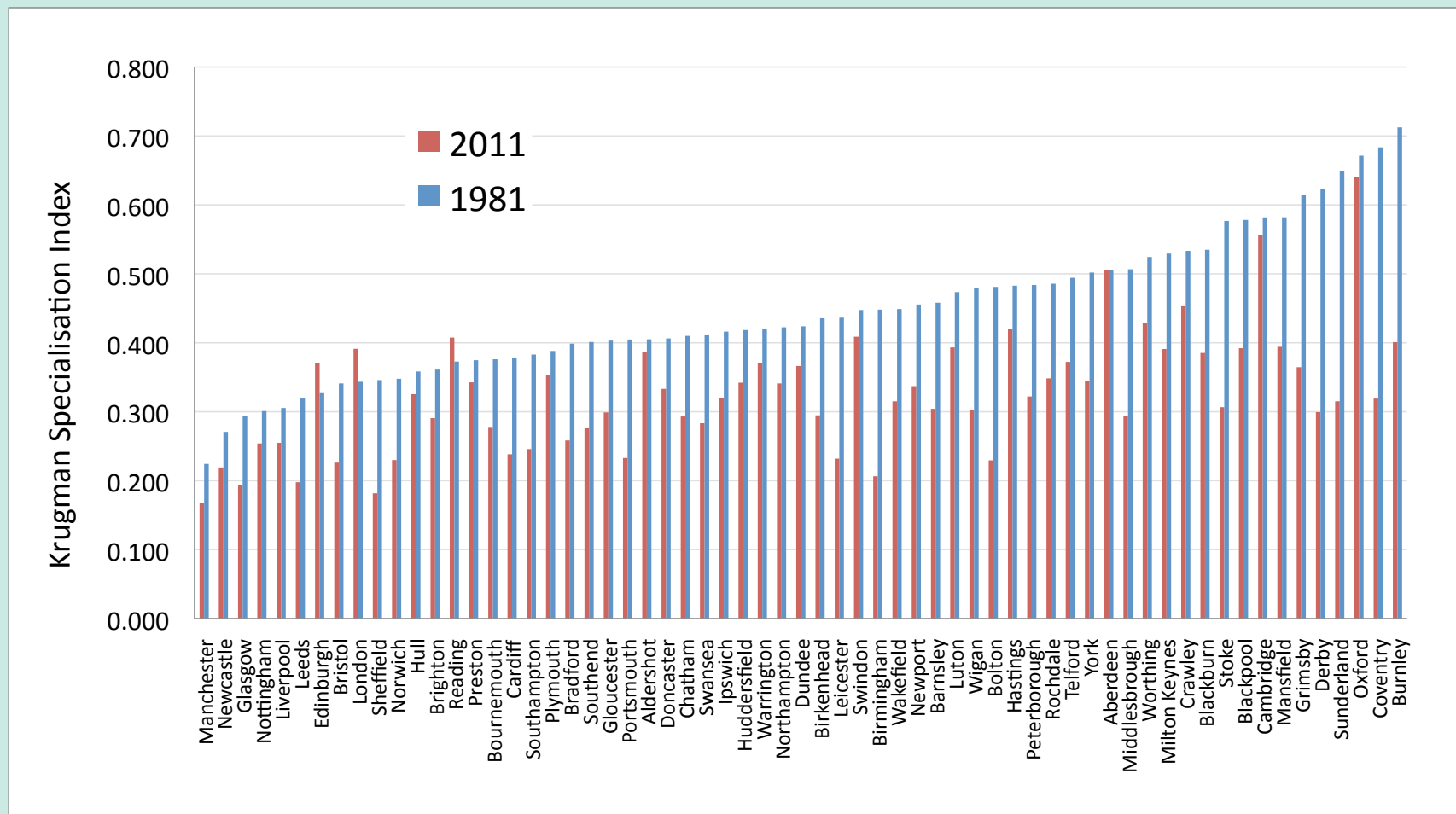
- Specialisation and City Size: Largest cities most diversified



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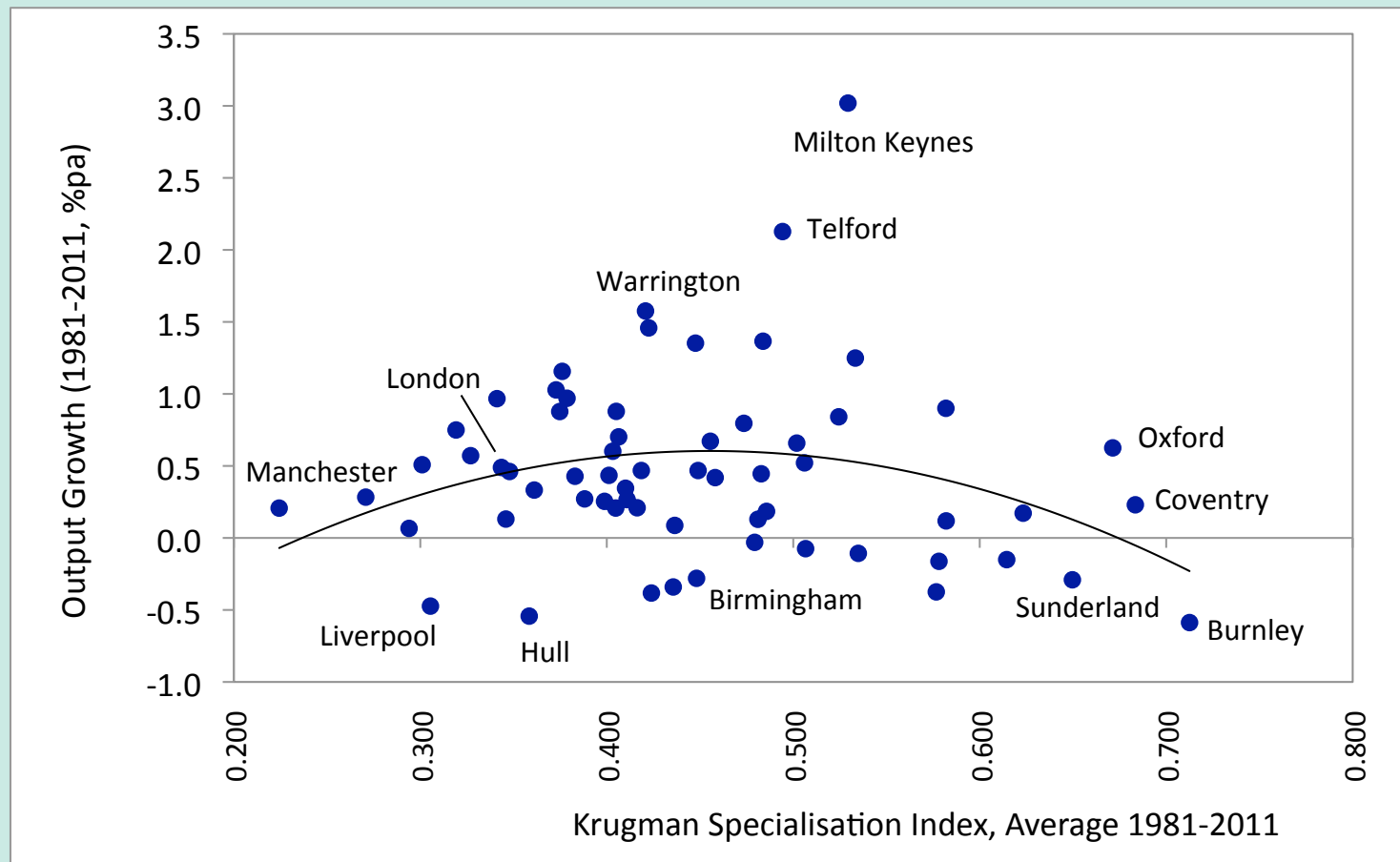
- Structural Convergence across British Cities



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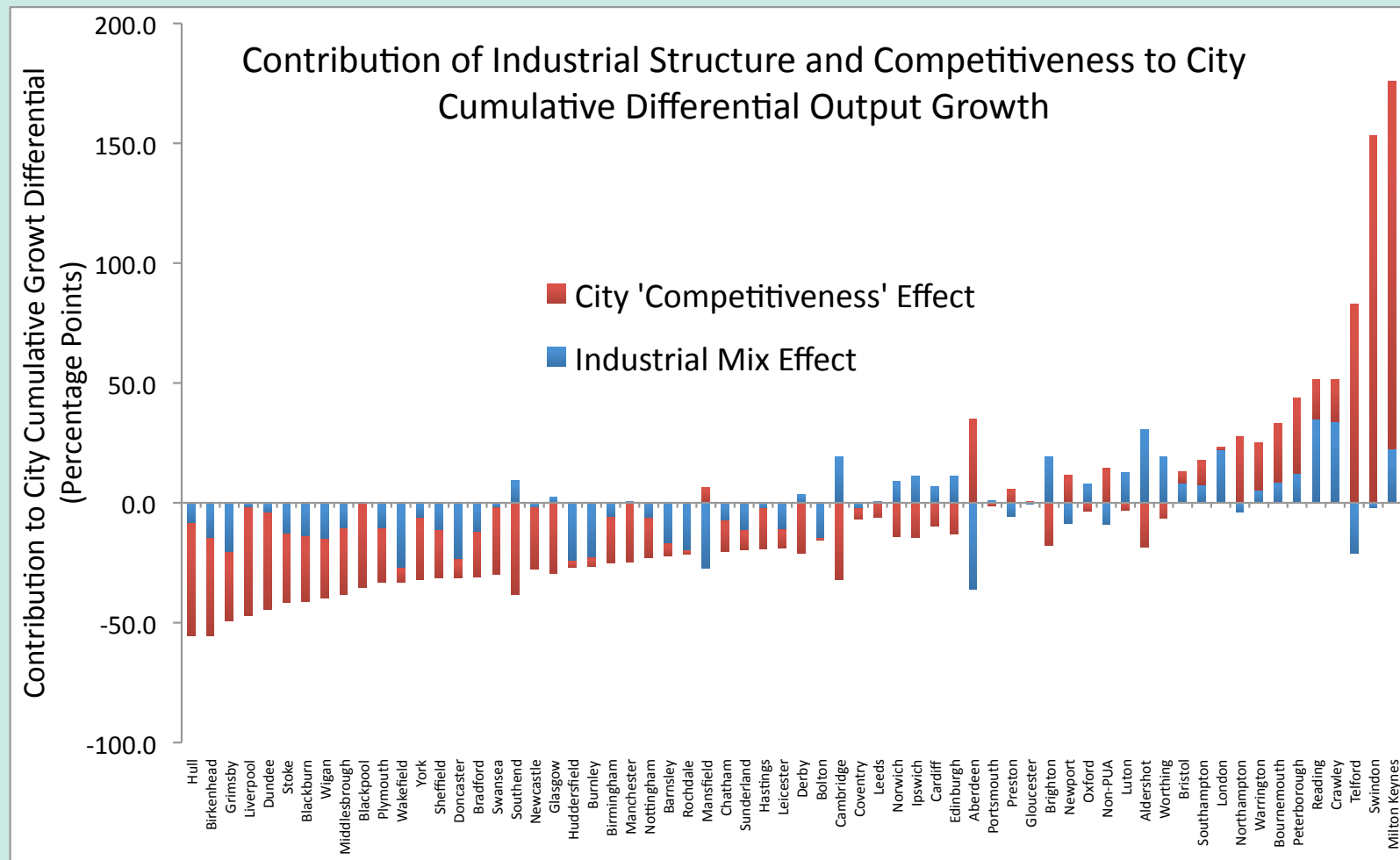
- Nonlinear relationship between specialisation and growth?



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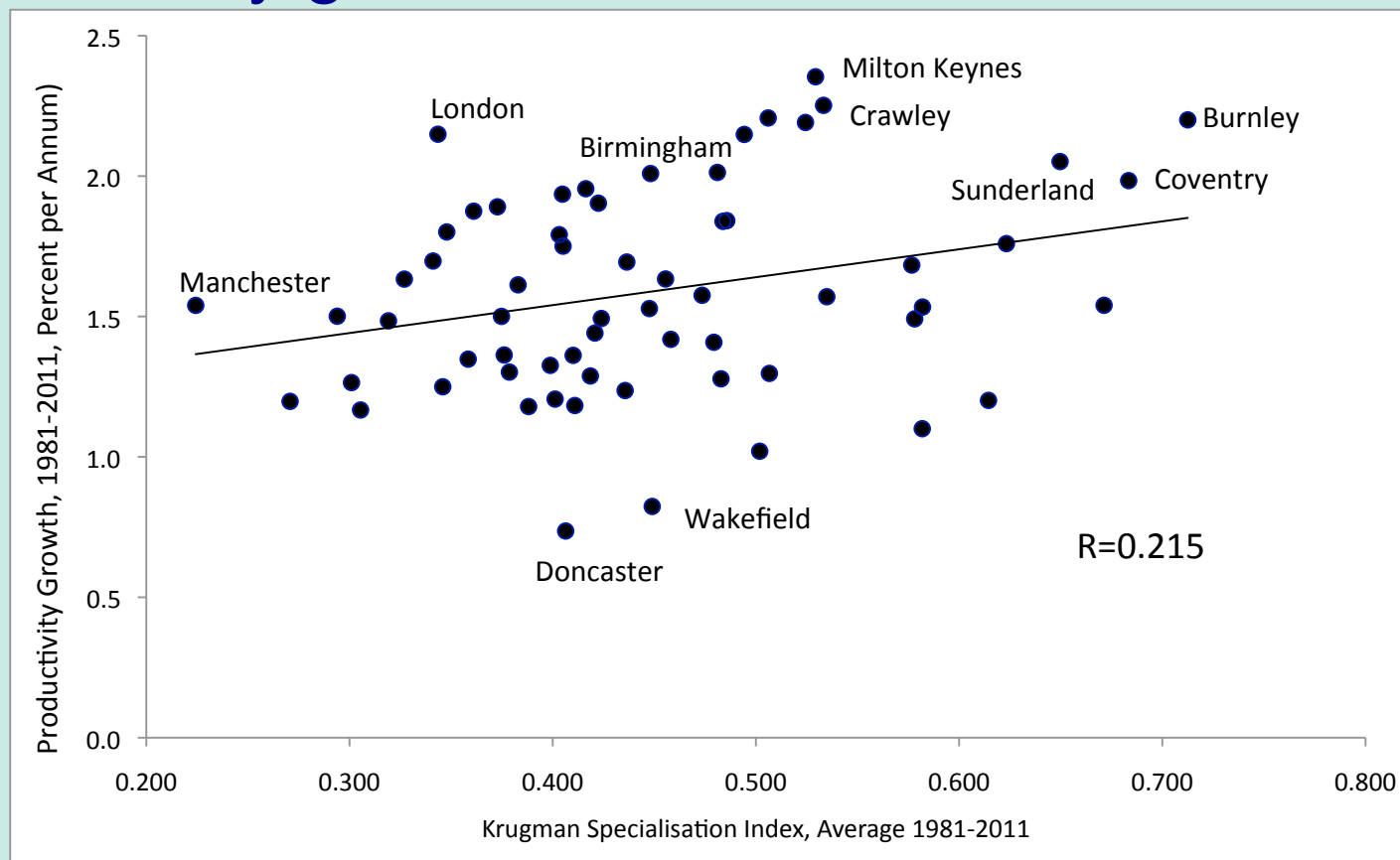
- Structure explains only part of city growth (1981-2011)



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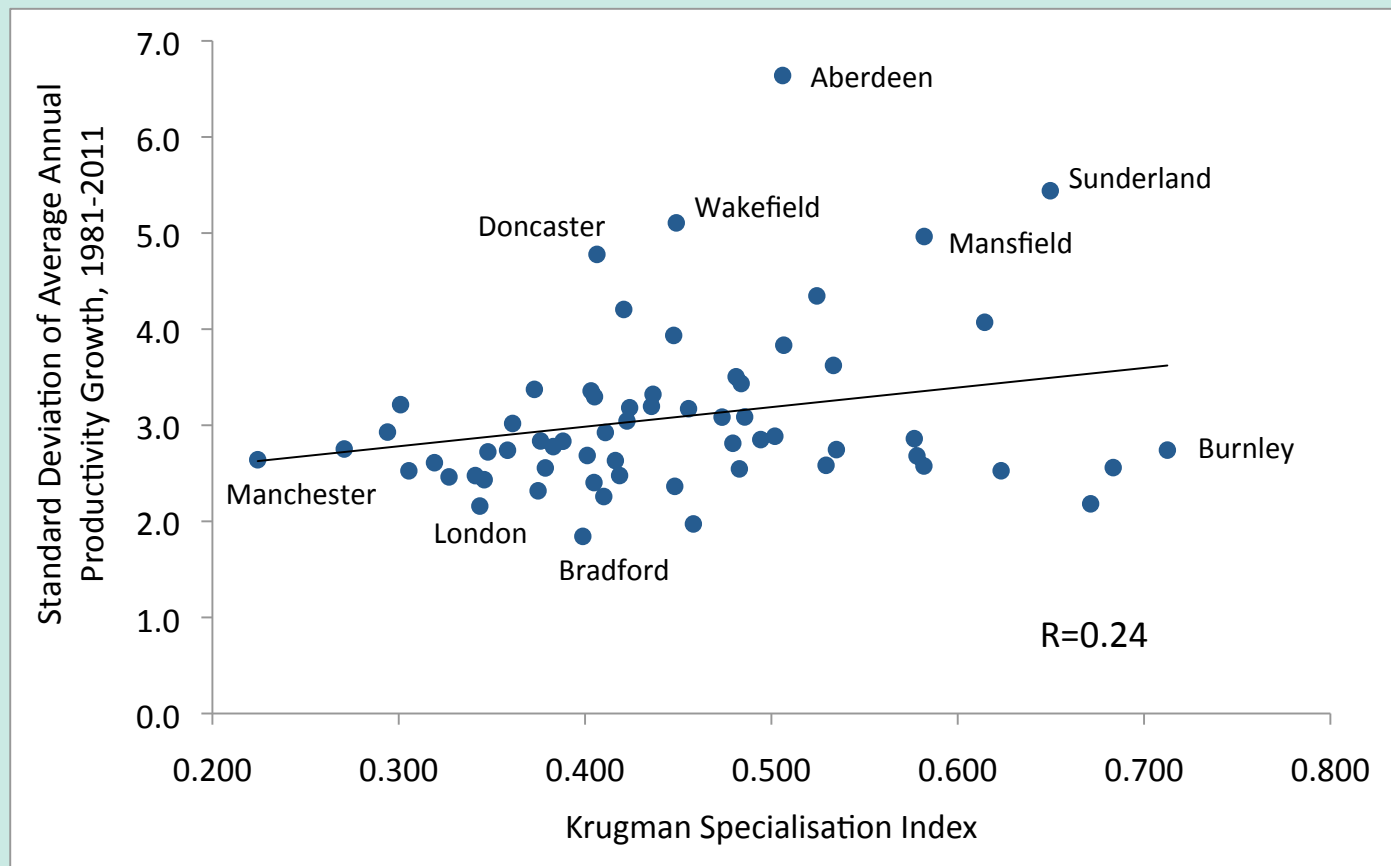
- Weak relationship between specialisation and productivity growth



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- But specialisation increases variability of city growth

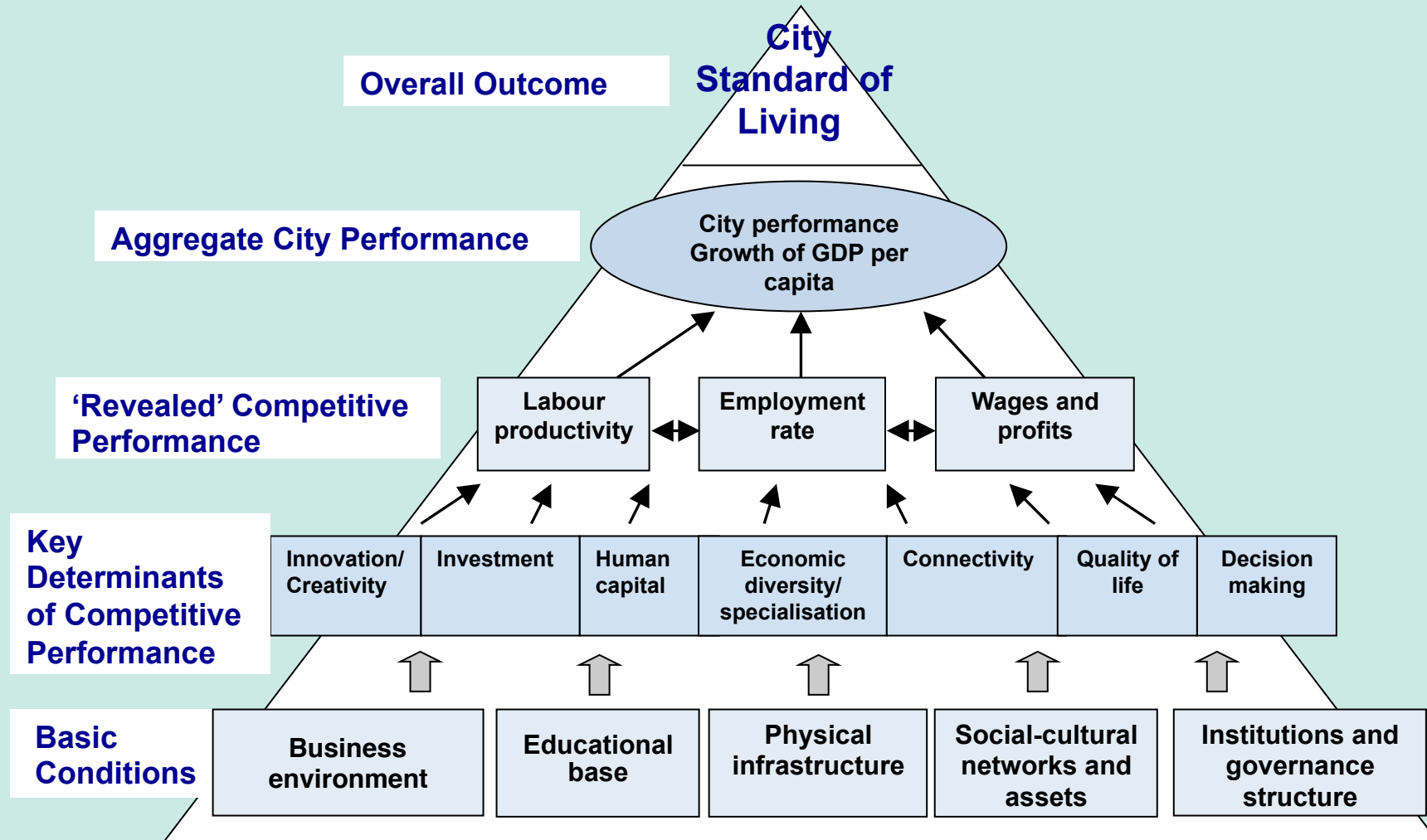


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- **City Competitiveness and Growth**
 - If city-specific or 'competitiveness' effects are as important as structure in determining city growth, what are these effects?
 - City 'competitiveness' - a complex issue
 - Productivity as 'revealed' measure of competitiveness
 - Large cities have higher productivity, but have had slower rates of productivity growth
 - Evidence of a Verdoorn effect – productivity growth driven by output growth
 - Human capital key to productivity and growth (eg Glaeser, Moretti)

City Competitiveness: A Conceptual Map

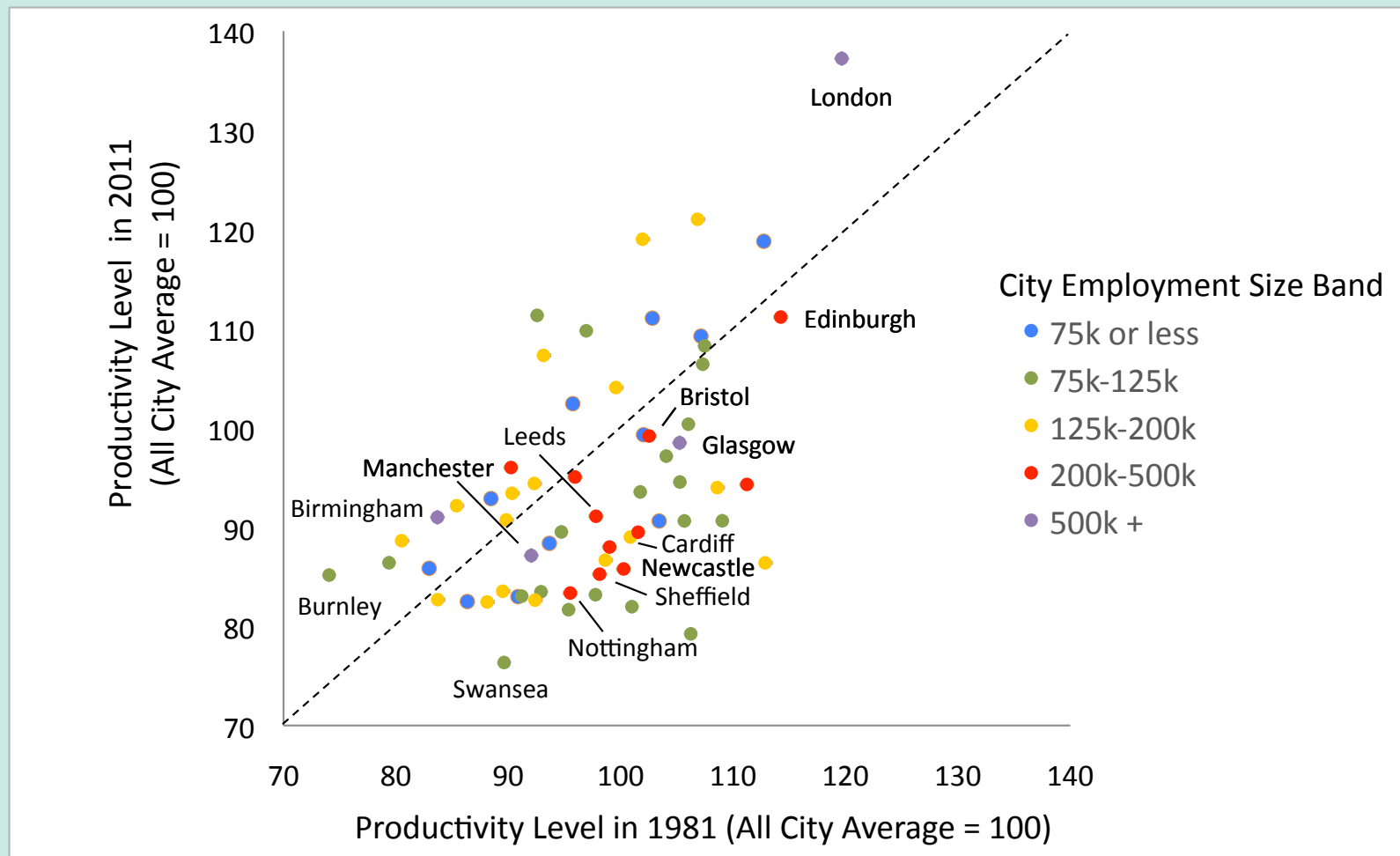


Revealed city competitive performance underpinned and determined by complex array of conditions

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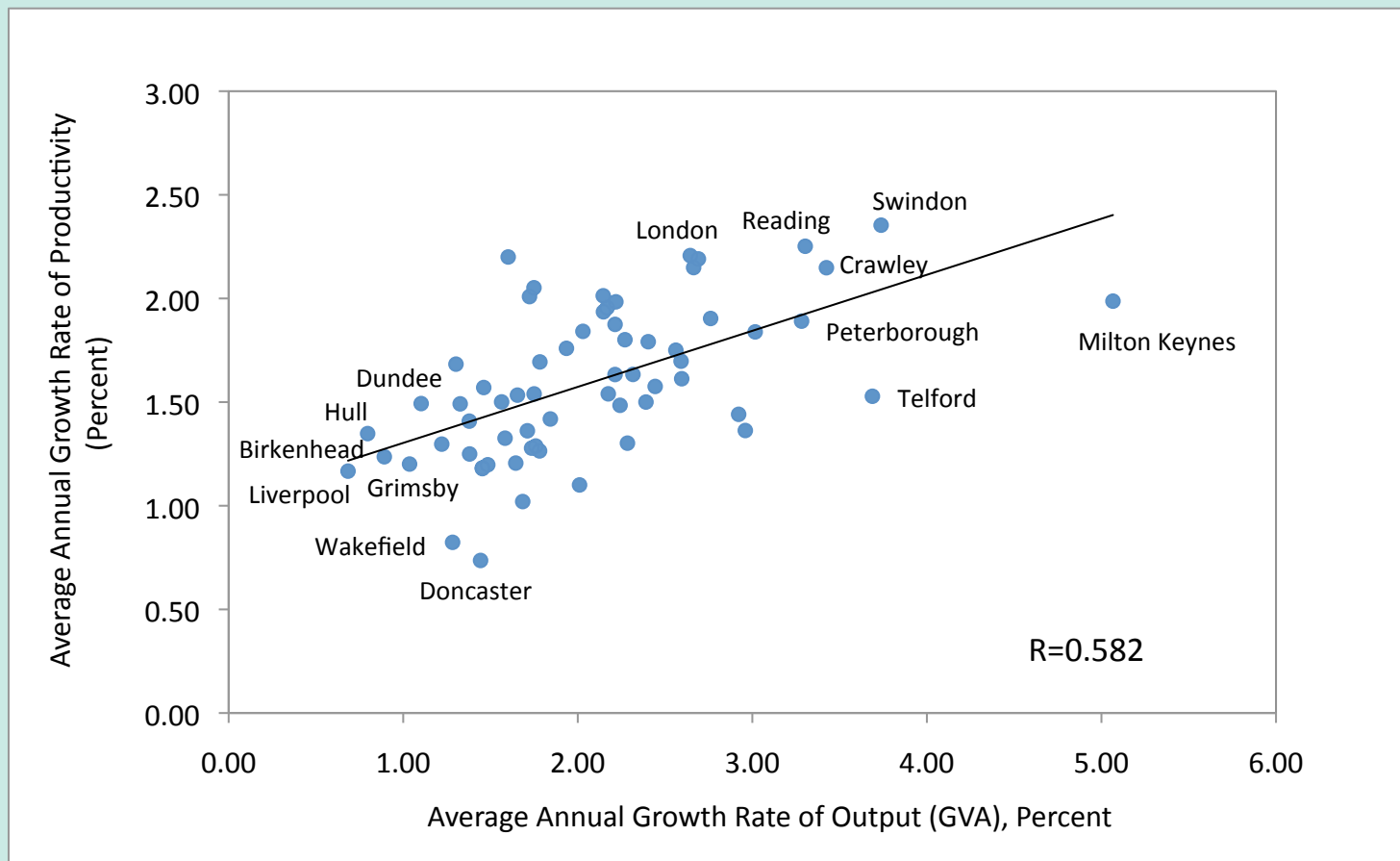
- Large cities have fallen behind in productivity



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- A City Verdoorn Effect? City Output Growth drives Productivity Growth



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- **Human Capital, Skills and City Growth**
 - A snapshot correlation between city productivity and skills (for 2011) gives $R=0.46$
 - Skills of most northern cities well below those of southern cities
 - London main net importer of graduates
 - Requires more detailed analysis (is occupational structure more important than sectoral structure?)

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- Wide variations in human capital across cities

Percent of Working Age Population with NVQ4 and above			
Top Ten Cities		Bottom Ten Cities	
Cambridge	65.9	Liverpool	23.2
Oxford	62.3	Stoke	22.9
Edinburgh	56.1	Hull	22.9
London	46.5	Sunderland	21.9
Reading	42.6	Barnsley	21.4
Brighton	42.4	Wakefield	20.2
York	41.3	Grimsby	20.2
Glasgow	41.1	Southend	20.2
Aberdeen	41.0	Mansfield	19.9
Bristol	38.6	Burnley	19.4

Source: Centre for Cities, *Cities Outlook*, 2014

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- **The Policy Debate**

- How can the performance of northern cities and larger cities be raised?
 - ◆ Spatial imbalance even after 80 years of policy
 - ◆ Need radically new approach
 - ◆ Economic growth is not a 'spatial zero-sum game'
 - ◆ But London enjoys advantages not available to other cities
 - ◆ London's success **not** simply due to 'market forces'
 - ◆ City's economy is underwritten by substantial public (State) expenditure
 - ◆ Also biases national economic policy

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- **The Policy Debate**

- How can the performance of northern cities and larger cities be raised?
 - ◆ UK has most centralised public finance and political system in OECD
 - ◆ Need new territorial governance system
 - ◆ Need fiscal devolution (a la Heseltine)
 - ◆ Need explicit city/region dimension to national economic management and policy – new ‘spatial literacy’
 - ◆ Do recent announcements (eg. Osborne’s ‘powering’ up northern cities via devolution of certain powers and finance) mark such an historical turning point?

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- **The Policy Debate**

- Why just one northern 'super city'?
- Why not three? Or four?
- Or even more radically, escape 'Rank-size Rule' mentality altogether (Not an iron law of nature)
- 40-50 'growth cities' of around 0.25 to 0.35 million (cf Rudkin's 40 or so 'Garden Cities')
- Smaller cities more flexible? More innovative? Better quality of life?

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- **The Policy Debate**

- To be successful in the future, cities will need to:
- Be adaptable – global competition, technological advances, energy issues, shifts in nature of work, etc
- Not a case of picking winners (what about ‘smart specialisation’?).
- Should we ask: what will cities look like 40 years hence – or what do we **want** our cities to look like?
- Different scenarios (‘business as usual’; ‘green cities’, ‘technology cities’; ‘fair cities’, etc)