Manchester City Region: The case for agglomeration economies

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Objectives

• Explain agglomeration economies
• Review of existing evidence
• Primary evidence on role of agglomeration economies in the MCR
• Interpret other studies evidence in light of agglomeration economies
• Draw up policy options
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Productivity differences (controlling agglomeration)
Productivity differences (controlling agglomeration; skills)
Productivity differences (controlling agglomeration; skills; transport)
Sector evidence

– MIER “sector accelerators” and “key sectors”
– Very difficult to be certain about an areas relative position in any industry
  • Value of “local knowledge”
  • Depends on how comparison is made
– More confidence about general results (e.g. ranking of industry by agglom) than location-sector specific
– Urbanisation results stronger than localisation
– Very difficult to identify what other factors (e.g. skills, transport) matter in what ways for specific sectors
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Findings

• City-regions outside of SE less productive
• Leeds-Bradford, Liverpool and Manchester most productive Northern
• Manchester and Liverpool more productive NW region
• Access to economic mass, skills, transport matters
• Between region and CR: economic mass and skills
• MCR productivity lower than expected given size
• Skills explain large part of gap with SE
• Transport networks small role. Important within CR
• Clustering not very important
Agglomeration and spatial policy

• High productivity offset by high costs of living.
• Productivity differences not sufficient for focus on one location
  – Efficiency: non-linearity in net benefits (no evidence)
  – Equity: Individuals unable to respond to differences
• Reducing cost of living and producing in high productivity locations
  – Best spatial policy for creating agglomeration and realising benefits.
  – Equity effects are more complicated (Aggregate gains; movers; commuters)
MCR and UK economy

- GSE large productivity advantage $\rightarrow$ *If* policy wants to achieve more “balanced” spatial structure working against strong market forces.

- No evidence that growth in North at *the expense of* growth in GSE good for UK.
MCR and growth in the North

• Several northern city-regions productivity disadvantage
  – Less than for other northern city-regions
  – Less than wider region
• Less work to counter market forces
• Growth in these CR not necessarily good for all N but on average good for people.
• Evidence that growth in the MCR (+ other CR) most realistic way to raise N growth
Social deprivation

• Recent growth in MCR reduced worklessness in all LA.
• More mixed neighbourhoods (but second order compared to individuals)
• Impact on deprivation of growth depends how achieved.
  – Direct impact by targeting poor individuals
  – Attracting/retaining skilled workers has indirect benefits but direct costs
Policy and growth I

• Demand skills
  – Relocation of public sector jobs (pay?)
  – Planning system suitable business premises
  – Infrastructure bottlenecks
  – Project financing (is this a problem?)

• Supply skills
  – Amenities (systematic evidence; focus public good)
  – Housing and transport demands
  – No particular emphasis SMEs / specific sectors
Policy and growth II

• Land use planning $\rightarrow$ living costs
  – Dwelling types & locations respond to demand
  – National planning (mixed comms; brownfield)

• Transport
  – Responsive & based on reasonable projections
  – Congestion charging
  – Transport objectives *first* (social deprivation?)

• MCR needs to be attractive location
  – Plans do not deliver housing people want in places they want to live and fail to allow for the journeys they want to make.
Policy and growth III

• Policy should *not* be directly concerned with sectoral composition.
  – Benefits of clusters (too big or too small?)
  – Role cluster policy overstated (1/750 competitive clusters created by policy)
  – Diversification matters more for innovation
  – Coordinating role (fixed costs and upfront investment)
  – Overall no evidence that skills, innovation, housing or transport policy need strong sectoral focus.
Conclusions

- Limited number of city-regions may offer best hope for achieving regional growth objectives.
- CR growth not necessarily good for all North.
- Effects on individuals positive if growth due to reductions in the costs of living or producing.
- Effect on specific places more mixed.
- Impact on deprivation within MCR depends how achieved.
- Need to address a number of very difficult strategic issues.