Manchester City Region: The case for agglomeration economies

Steve Gibbons

Henry Overman

Alessandra Tucci

SERC

Spatial Economics Research Centre

Objectives

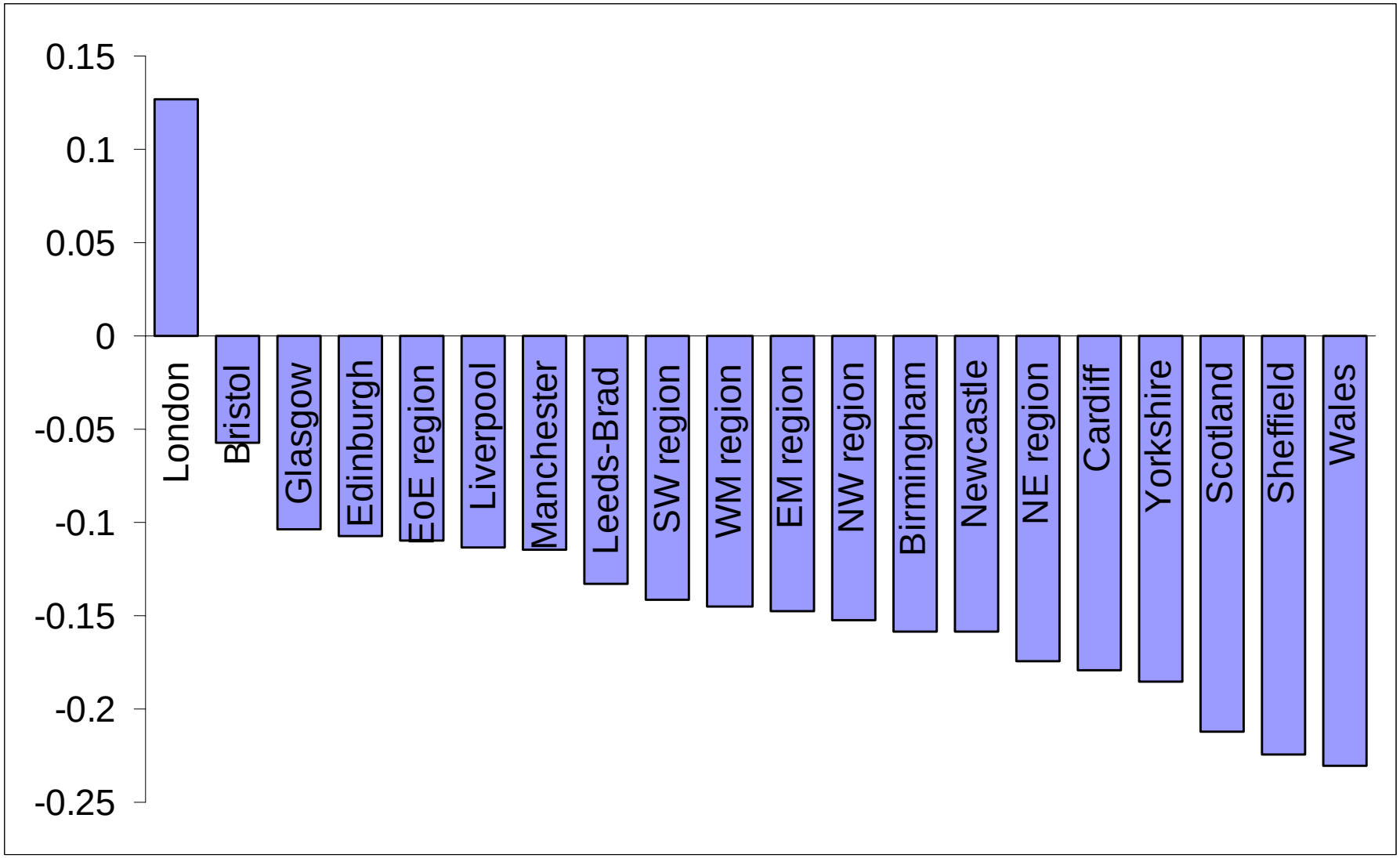
- Explain agglomeration economies
- Review of existing evidence
- Primary evidence on role of agglomeration economies in the MCR
- Interpret other studies evidence in light of agglomeration economies
- Draw up policy options

SERC
Spatial Economics Research Centre

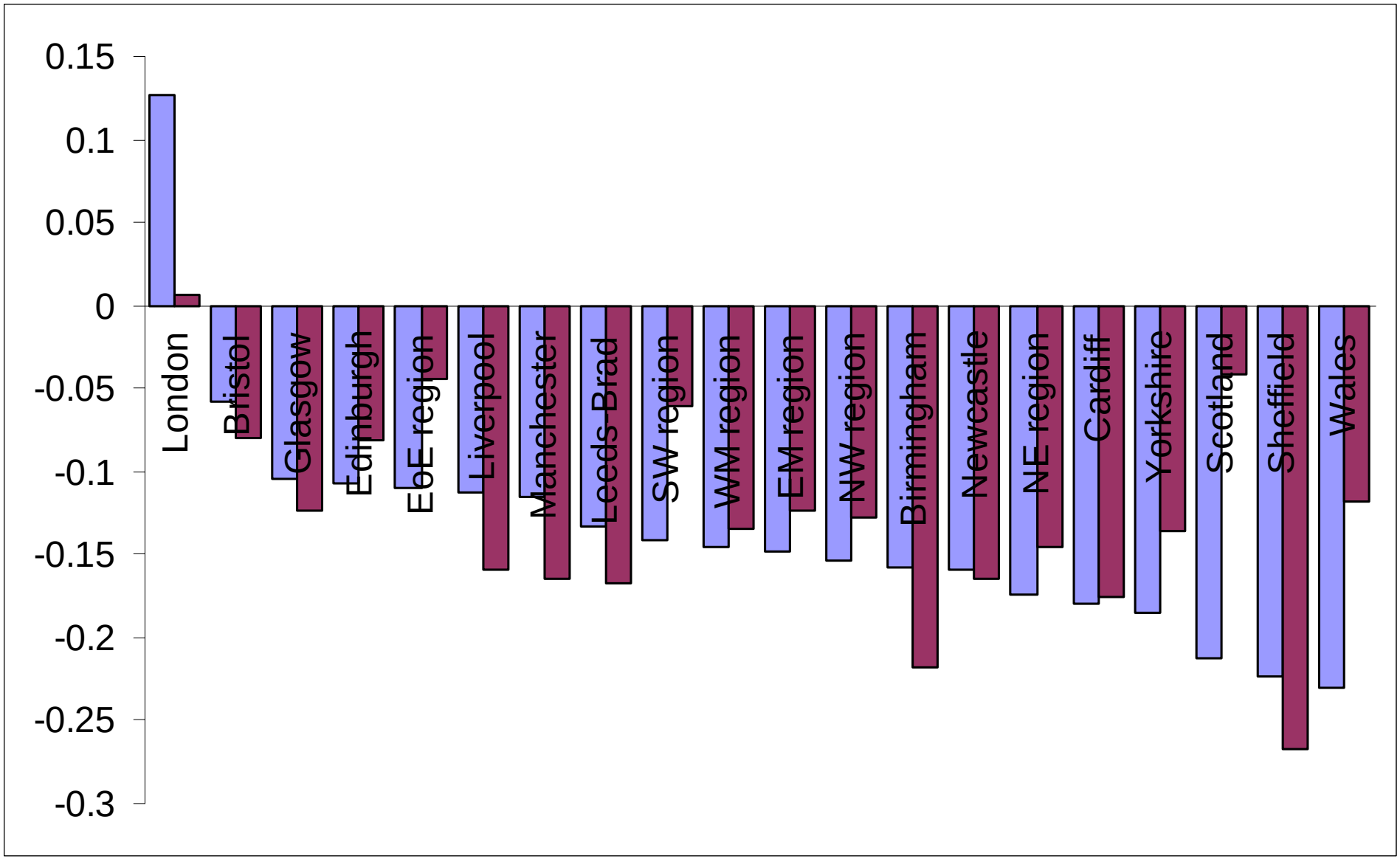
Determinants of productivity differences

Variable	(1)	(2)	(3)	(4)
Urbanisation		0.0894	0.0730	0.0679
Skills (NVQ3)			4.442	6.433
Skills (NVQ4)			10.7624	9.278
Airport				-0.00688
Motorway				-0.00452
Station				0.00818
Port				-0.0126
Observations	285809	285809	285809	285809
R-squared	0.897	0.898	0.899	0.899

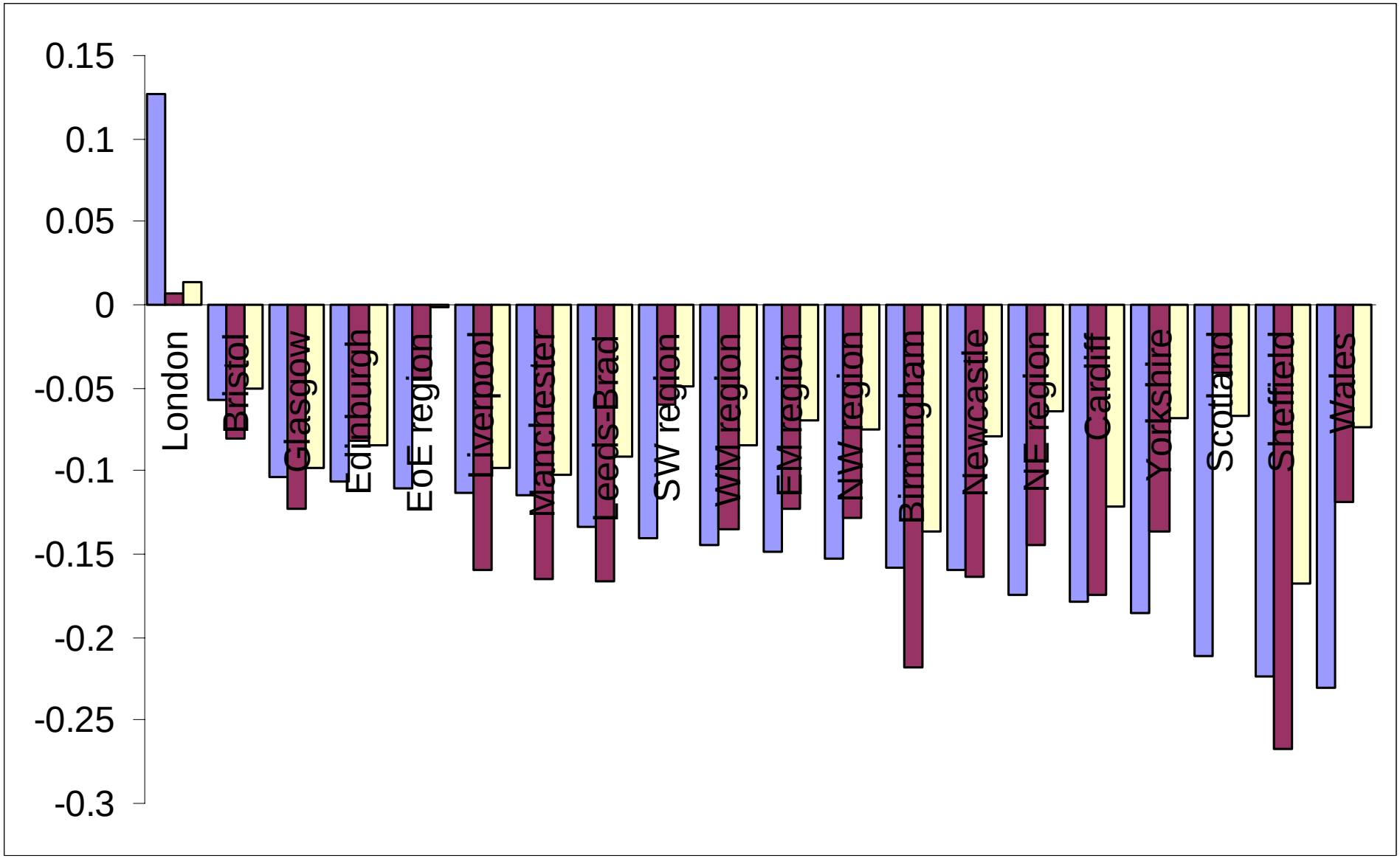
Productivity Differences



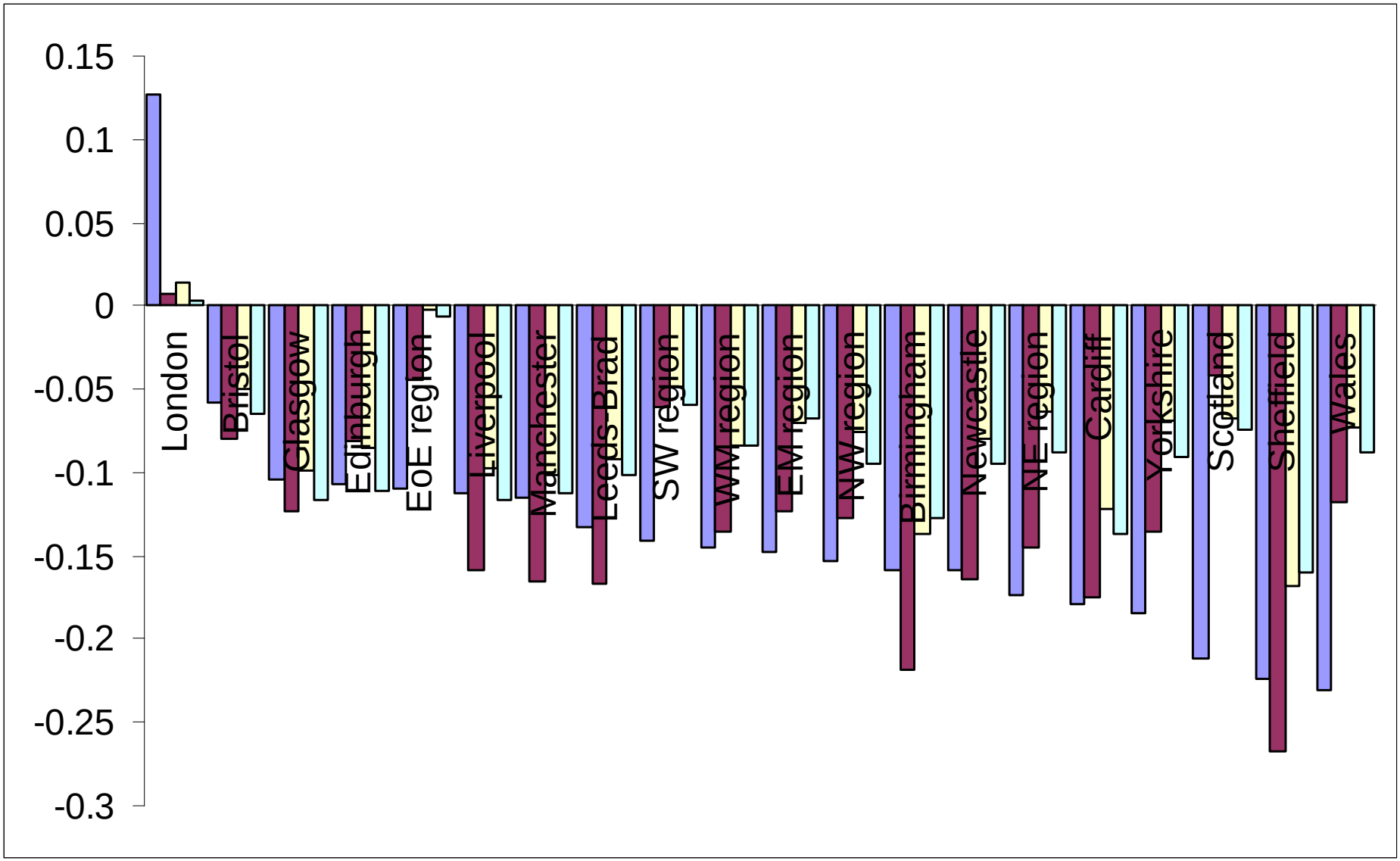
Productivity differences (controlling agglomeration)



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

Variable	(2)		(3)		(4)	
Urban I	0.0894		0.073		0.0679	
Urban II		0.117		0.101		0.0957
Local		-0.0272		-0.0282		-0.0281
Skills (NVQ3)			4.442	3.91	6.434	6.218
Skills (NVQ4)			10.76	11.62	9.278	9.91
Airport					-0.0069	-0.0056
M-way					-0.0045	-0.0038
Station					0.00818	0.00721
Port					-0.0126	-0.0134
Obs	285809	285775	285809	285775	285809	285775

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 → *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 → 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.