

size and the productivity of its inhabitants. Graham and Gibbons (2018) summarise results from 47 studies estimating these agglomeration economies, 12 of which are from the UK.

The consensus estimate suggests that once we allow for the unequal spatial distribution of higher-skilled workers, the elasticity of productivity with respect to size is around 0.02 to 0.03. This means that doubling city size increases people's productivity by 2-3%.

While these productivity effects are important, when it comes to GDP per capita, they can easily be swamped by spatial disparities in the share of skilled workers. This happens in the UK where (if we exclude London) the overall relationship between city size and GDP per capita isn't very strong – as Figure 3 shows.

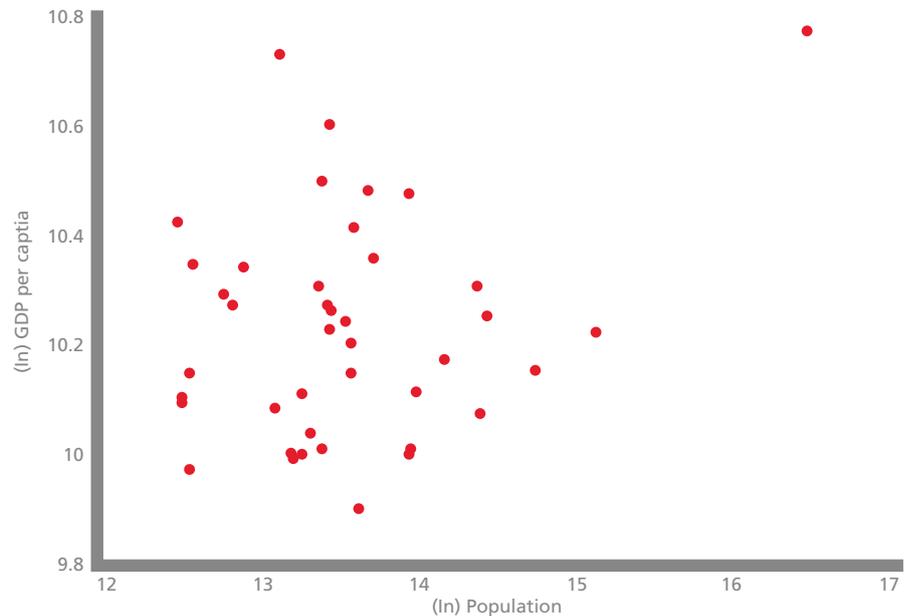
Our cities still benefit from agglomeration economies – someone with a degree moving from Blackpool to Manchester would be more productive – but this isn't enough to encourage the sorting of highly skilled workers into some of our bigger cities outside London.

Cities versus towns

Because both skills and size matter, and skills matter much more than size, it's not very helpful to distinguish between cities and towns. Smaller towns can do very well if they have lots of highly skilled residents. Bigger cities may struggle if they have lots of low-skilled residents, even if they may still do better than their surrounding regions.

The cost of living also matters, with housing supply a key determinant of differences in the cost of living across

Figure 3: GDP per capita against city size



places. A small, rich town, with limited housing supply can easily have housing costs that offset any productivity benefits for households. Similarly, a large poorer city, such as Liverpool, may have housing costs that help to offset some of the productivity advantages that workers would gain by moving.

Amenities matter too and we need to think about the three-way trade-off between differences in productivity, the cost of living and amenities if we want to understand who lives where and what are the implications for individual disparities.

Under-investment in the North

Because London and the South East are rich and our tax system is progressive, there is a lot of redistribution from the South to the North. But on some measures, London receives a disproportionate share of investment in infrastructure.

A more equal distribution of infrastructure investment would slow growth in London. Whether it would increase growth elsewhere would depend on how the money was spent because the economic returns to infrastructure vary a lot across places.

Rather than focusing on London's dominance, we should ask why other cities and towns do not offer similar opportunities



Housing costs

We also need to address concerns over high housing costs in our more successful areas, as well as thinking about ways to encourage increased mobility. For example, how do we widen the horizons of young people growing up in disadvantaged areas to ensure that they are willing to commute or move to access opportunities offered in the broader local area?

Left-behind places

An effective policy response will require increased investment (LSE Growth Commission, 2013) and the reversal of austerity. Left-behind places have high proportions of vulnerable people with complex needs and low levels of economic activity. This compounds their problems, as long-term unemployment, poverty, mental illness and poor health often go hand-in-hand.

CEP research suggests that small tinkering and minor tweaks of existing policies will not be enough to tackle the multiple barriers to social mobility faced in these places.

It is also important to be clear that spending in left-behind places does not always need to be justified based on economic performance. There are important public good arguments that could justify increased expenditure across a wide range of policy areas. For example, it is possible to argue for subsidising rural broadband as a public good while recognising that its economic impacts are likely to be limited.

Distributional arguments can also be used to support intervention. For example, reversing austerity cuts to welfare benefits would disproportionately benefit areas with high concentrations of disadvantaged households. But it is important to be realistic about the likely economic impact of these policies so that we properly consider sustainable sources of government revenue to fund this increased public expenditure.

Devolution

Discussion around the systems through which urban and regional economic policy is delivered often distracts attention from more fundamental questions about the effectiveness of particular policy interventions. There is a growing recognition that greater local control may be needed to improve policy effectiveness, although there is disagreement about the form that this devolution should take.

Whatever happens, it is important that policies that have wide-scale impacts (such as transport and housing) are coordinated across local areas and that the right kind of policies are targeted at different areas.

Differentiating the response in this way is controversial and difficult for constituency-based politicians (in both central and local government). The traditional policy mix – central government investments in local growth projects, transport and other infrastructure, funding for business support and access to finance, and a host of other interventions – has not properly addressed this challenge and has therefore been ineffective in narrowing disparities.

Conclusion

Spatial disparities in the UK are profound and persistent. Improving economic performance and helping to tackle the problems of left-behind places are both important policy objectives. Addressing these challenges requires a new approach to policy, one that allows for different responses in different places.

Such variation makes many people nervous. But it is important to remember that we should care more about the effect of policies on people than on places. Policies should be judged on the extent to which they improve individual opportunities and on who benefits, rather than whether they narrow the gap between particular places.

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An earlier version of this article appeared in CEP's 2019 Election Analysis series as 'People, Places and Politics: Policy Challenges of the UK's Uneven Economic Geography' (<http://cep.lse.ac.uk/pubs/download/ea047.pdf>).

Further reading

Clément Bosquet and Henry Overman (2019) 'Why Does Birthplace Matter so Much?', *Journal of Urban Economics* 110: 26-34.

Lee Elliot Major and Stephen Machin (2018) *Social Mobility and Its Enemies*, Pelican.

Steve Gibbons, Henry Overman and Panu Pelkonen (2013) 'Area Disparities in Britain: Understanding the Contribution of People vs. Place Through Variance Decompositions', *Oxford Bulletin of Economics and Statistics* 76(5).

Daniel Graham and Steve Gibbons (2018) 'Quantifying Wide Economic Impacts of Agglomeration for Transport Appraisal: Existing Evidence and Future Directions', CEP Discussion Paper No 1561 (<http://cep.lse.ac.uk/pubs/download/dp1561.pdf>).

LSE Growth Commission (2013) *Investing for Prosperity: A Manifesto for Growth*.

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