

# Time for a strategy to boost productivity in Manchester and beyond

*The UK has a significant productivity problem and the poor performance of the nation's largest cities outside the capital contribute to this problem. **Paul Brandily, Mike Brewer, Nye Cominetti, Matt Coombes, Adam Corlett, Lindsay Judge, Felicia Odamtten, Henry Overman, Cara Pacitti, Gui Rodrigues, Krishan Shah, Paul Swinney and Lalitha Try** set out what change would be needed to set Greater Manchester on a plausible path for growth.*

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The productivity of our largest cities lags behind the UK average, bucking the global trend for bigger urban areas to be more productive. The country as a whole is poorer as a result.

At the heart of this problem are the UK's "twin second cities": Greater Manchester (GM) and Birmingham. Their weak economic performance has long roots in the rapid deindustrialisation of the second half of the 20th century, but the fact that this persists today reflects more recent problems. Their sheer size (a combined population of 5.6 million) and central role in their regional economies (there is no route to a thriving North West that does not run through a more productive Manchester) mean they must be centre stage in attempts to boost aggregate growth, close regional productivity gaps and drive up local living standards.

## Low productivity in its large cities makes the UK an outlier

[Our new report](#), a collaboration between the LSE's [Centre for Economic Performance](#), the [Resolution Foundation](#) and [Centre for Cities](#) for the [Nuffield Foundation](#)-funded Economy 2030 Inquiry, sets out a grounded answer to the difficult question: what would it actually take to achieve a higher-productivity future for GM? (A previous report tackles the same question [for the Birmingham urban area](#).)

GM may have grown faster than many other large cities in recent years but in 2019, average gross value added (GVA) per worker in GM stood at £50,505, way below the UK

average of £58,871. GM remains 35 per cent less productive than London, a demonstrably larger gap than between France's second city, Lyon, and Paris, which stands at just 20 per cent.

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Large cities are usually hives of economic activity that underpin national as well as local prosperity. As the UK's second most populous city region after London, GM clearly has the potential to be far more productive than it is today. But shifting to a permanently higher-productivity equilibrium is far easier said than done. It is all the harder if we are distracted by wishful thinking about the scale of change required.

## **Big change needed**

So, what would it take to reduce GM's productivity gap with London to 20 per cent? Our analysis shows that this would require change equal to increasing GM's business capital by 15 per cent (amounting to a £30 billion aggregate increase) and its graduate workforce by as many as 180,000. The latter is what it would take to raise the graduate share of employment in GM (currently 37 per cent) by 6 percentage points, bringing the city region in line with the likes of Glasgow and Southampton. Increased higher education participation and upskilling of existing residents could support a rise in the graduate share. But a graduate workforce increase on this scale cannot happen without significant inflows of highly skilled people from elsewhere in the country or abroad.

Clarity is needed about the nature, not just the scale, of change. Despite popular claims to the contrary, prosperity for GM will not come from a focus on raising productivity in local (ie, non-tradeable) service sectors, such as hospitality, retail and care. Local services' sectors are important in themselves, not least because they employ more than half (58 per cent) of GM's workforce and deliver valuable services. But these are not the sectors where the productivity shortfall lies.

The same does not hold true for tradeable sectors. Here the evidence suggests there is much more room for improvement. This does not, however, mean a return to GM's proud industrial history: manufacturing is simply not a large enough part of the local economy

today to drive up aggregate growth. There is scope to improve GM's manufacturing productivity performance which is middle-of-the-pack relative to other UK cities. But if all manufacturing firms in the city region operated at their sector's current productivity frontier, total GVA per worker across GM would rise by just 3.8 per cent. With just 7 per cent of workers in the city region employed in manufacturing today, there is no escaping the reality that re-industrialisation cannot be the centrepiece of a plausible strategy for making Manchester great again.

## **Playing to its strengths**

But what is the plausible engine for growth in GM? The city region's sheer scale, and the nature of the UK's comparative advantage, gives us the answer. Expanding tradeable services is the route to prosperity. [The UK is a services "superpower"](#), exporting more in this category than any country in the world save the US. This should be good news for GM, because tradeable service sectors – such as law, design, accountancy and creative industries – benefit considerably from dense locations with a large pool of labour to draw upon.

GM must work more effectively as a city region to attract high-value firms and higher-skilled workers.

GM has already made strides in this direction: the share of employment in firms providing knowledge-intensive business services has grown from 5 per cent in 1981, to over 15 per cent in 2021. This is higher than Birmingham (13 per cent) but it lags behind higher-productivity cities such as London (25 per cent). The productivity gap between GM and London would narrow by 9 percentage points (from 35 per cent to 26 per cent) if the sector composition in both cities were the same today.

GM must work more effectively as a city region to attract high-value firms and higher-skilled workers. There is ample evidence that GM does not function in this way today. Its level of investment has been and remains stubbornly low and graduate wages in GM are only 6 per cent higher than in the broader North West.

## **Boosting productivity will take political commitment – and realism**

The task, then, is to make GM function as an effective city region, with different parts

playing different roles that, in combination, support and attract high-value firms and higher-skilled workers. Making this a reality in GM will require action on many fronts. Achieving this will mean tough decisions about how land is best used; stepping up improvements to the intra-city transport system; and decisive planning when it comes to housing. In turn, these changes will increase productivity for firms able to access improved office space and a larger pool of high-skilled workers, encouraging them to invest and increasing capital per worker. Our report spells out the nature and extent of the change that will be needed.

A higher-productivity future for GM beckons. The progress of the last two decades should not give rise to complacency; the job is far from done. The scale of change needed to shift to a higher-productivity equilibrium is large; the breadth of issues that require simultaneous attention is wide. But it can be done – if national politicians concentrate their efforts, and local politicians are empowered to embrace the disruption involved. It's time Britain put its “twin second cities” centre-stage.

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This blog post summarises [A tale of two cities \(part 2\)](#), a report of *The Economy 2030 Inquiry*. *The Economy 2030 Inquiry* is a collaboration between the Resolution Foundation and the Centre for Economic Performance at LSE. It is funded by the Nuffield Foundation.

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