

London 50% more productive than any other UK region – but why?

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London is over 50% more productive than any other region in the UK, according to new research from Durham University Business School.

With the Conservative government's plans to level-up the rest of the UK, and ensure that there is little disparity between the various regions of the UK when it comes to work, wages and opportunities, the study indicates there is a long way to go in terms of levelling the playing field with London, in terms of productivity.

The research, conducted by Richard Harris and John Moffatt, Professors of Economics at Durham University Business School, aimed to understand the differences in regional productivity levels, and the underlying factors which have enabled London to become so much more productive than the rest of the UK.

The researchers explored whether factors such as the larger levels of multinational ownership, higher engagement in R&D, the size of firms, and engagement in exporting were the reason as to why London-based industry was much more productive than those in other UK regions.

The researchers obtained the estimates of total-factor productivity (TFP) of all plants between 1997-2018, for the 11 administrative regions in Great Britain. Using this data, they were able to effectively measure the impact that each factor had on organisational and industry productivity, and compare this on a regional scale.

The results revealed London to be 52-54% more productive than the South East, the second most productive region. Wales was identified as the least productive region of the 11.

The researchers found that differences in plant characteristics such as size or multinational ownership had a small impact, and were not the most dominant reason as to why London's productivity was significantly higher than other regions. London dominates because its plants benefit from their location – factors such as governance, infrastructure, physical geography and agglomeration (clustering) economies.

Professor Richard Harris says,

“The task of levelling up the UK from the Conservative government is both an ambition but difficult one. When it comes to the manufacturing sector, the difference in the levels of productivity is evident between London and elsewhere, whilst in terms of the services industry, this difference is even higher.

As plant characteristics cannot explain this difference, an obvious way for Government to help boost productivity across the board – such as increasing the proportion of plants engaged in exporting, R&D or foreign-owned – will not have the desired effect of ensuring elsewhere is working as efficiently and effectively as London”.

The researchers believe the findings can help identify the size of the task faced in 'levelling-up'

as well as avoid policy initiatives for levelling up that may actually have only a limited impact on productivity, which are unlikely to close the gap with London. The researchers agree levelling up is an important policy, though difficult to implement when the reasons behind London's superior productivity are largely unexplained.