The importance of the city: A spotlight on Glasgow's recent economic performance

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"Cities are our species' greatest invention. …Cities are the absence of physical space between people and companies. They are proximity, denseness, closeness. They enable us to work and play together, and their success depends on the demand for physical connection…" (Glaeser, 2011, p. 6)

Introduction

The Scottish Government purpose specifically acknowledges the heart of the debate on whether concentration of economic growth helps or hinders overall national growth. By aiming to assist the creation of "a more successful country, *with opportunities for all of Scotland to flourish*, through increasing sustainable economic growth" [emphasis added], the purpose target suggests that growth at the Scottish level is consistent with growth also at lower spatial levels. In a recent paper we reported that concentration of economic activity had increased over the last fourteen years, with the major cities – Aberdeen, Edinburgh and Glasgow – outperforming the Scottish economy and accounting for almost one half of all output in the Scottish economy (Allan, 2013).

In this short note we explore some details about the specific performance of the Glasgow economy in the recent past. In particular we explore to what extent the Great Recession has impacted on economic activity at the city level. We focus exclusively on the area as defined by the city council area. Although we therefore omit those regions surrounding Glasgow, our previous work suggested that it was principally in the major city economies that growth in Scotland was occurring. The most recent data for which an industrial breakdown of Gross Value Added (GVA) is available estimates that 17.0% of GVA in the Scottish economy was created within Glasgow. In the wider West of Scotland area, including Glasgow, 39% of Scotland's GVA was created. With extensive commuting flows into the Glasgow area, concentration of economic activity didn't persist to anything like the same extent when examining regional household wage income figures.

Through seeking to understand the particular details of Glasgow's growth performance over the recent past we hope to uncover what has made Glasgow's growth performance particularly strong.

Glasgow and Scotland: demographic highlights

We begin by examining levels and recent trends in headlines of the labour market in Glasgow and Scotland. These are shown in Table 1.

Table 1: Glasgow and Scotland labour market headlines

		Glasgow			Scotland		
		Latest	Change in last year	Change since 2008	Latest	Change in last year	Change since 2008
Population [a]	Level	598,800	1.0%	2.5%	5,254,800	0.6%	1.7%
Working age population [a]	Level	420,300	1.4%	3.6%	3,449,100	0.5%	1.5%
	Rate*	70.2%	0.2%	0.8%	65.6%	-0.1%	-0.2%

*Notes: [a] = 2011 figures; [b] = 2012 annual figures; * rate is proportion of total residence population. Source: ONS mid-year population estimates.*

Firstly we see that Glasgow's population growth each year since 2008 has been higher than for Scotland as a whole. This reverses the historic trend in the relative population growth of these areas. Between 1981 and 2008 there was only one year (2001) in which Glasgow's population grew faster than Scotland as a whole. The period since 2008 doesn't coincide with weak population growth at the Scottish level – at around 0.6% between 2010 and 2011 the population of Scotland increased by its single largest percentage point increase over the last thirty years – but that Glasgow's population increase has been striking.

Although we do not attempt to identify the causes of Glasgow's recent population growth, the population can only adjust through natural factors (births and deaths) and migration decisions (net migration being the sum of (positive) in-migration and (negative) outmigration to an area). Taking migration first, one might speculate that migration could assist Glasgow's recent population increases particularly through migrants being attracted to the Scottish cities, with their thicker labour markets and superior job opportunities in times of crises.

Interestingly, data on migration by council area (GROS, 2012) is available and lets us test this hypothesis. While the resident population of Glasgow increased by 14,600 between 2008 and 2011 (2.5%), net migration to Glasgow accounts for 8,880 of this change. Looking at gross migration flows between 2008 and 2011, while in-migration to Glasgow has been broadly stable at around 27,700 per year, out-migration has fallen sharply over the last three years. This is certainly an interesting finding as falls in out-migration could be consistent with reduced labour mobility between the regions of Scotland. This could have implications for the regional pattern of employment over the short- and medium term. The link between declining out-migration from Glasgow and the much reduced levels of house prices and sales transactions would be one anecdotal area worthy of further investigation.

Interestingly, we can also see that the proportion of Glasgow residents of working age has increased in every year since 1993, a chain unbroken by the recession. Over the same periods the share of the Scottish population of working age has declined.

Glasgow's recent economic performance and the impact of the recession

To examine Glasgow's recent economic performance, we again refer to the dataset constructed for Allan (2013). This used current price (cash) values for GVA by ten industries for 23 sub-regions across Scotland, of which Glasgow was one. The process by which these data was converted into a real (constant price) series is detailed in that publication.

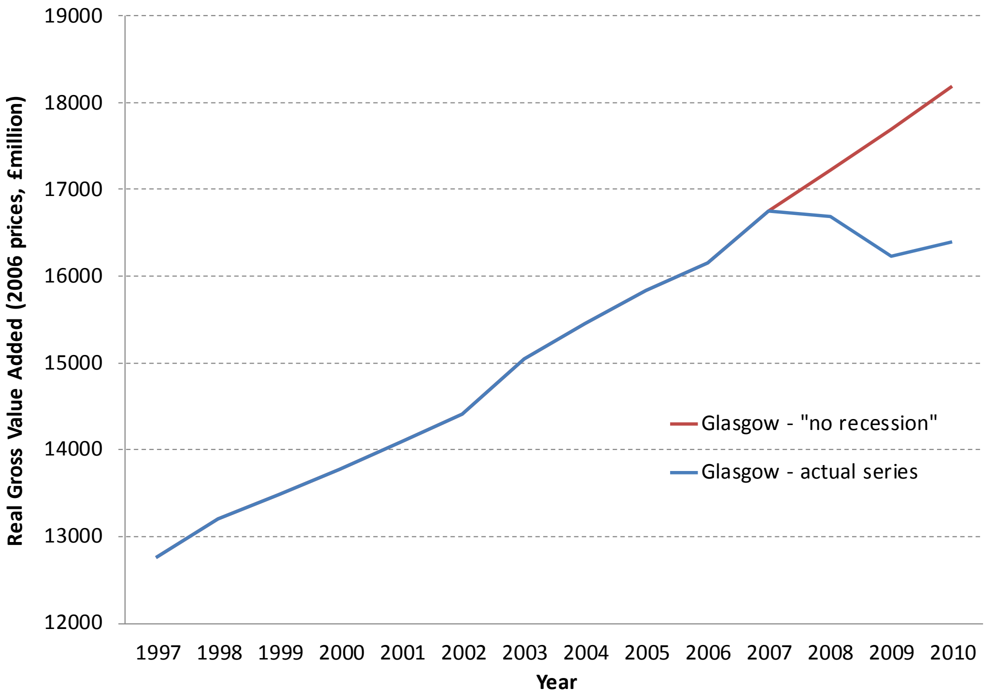
From these data we can make the following observations. Firstly, Glasgow's economic growth was slightly stronger than Scotland as a whole. This finding applies to the period between 1997 to 2010 when annual growth in Glasgow and Scotland was by 1.9% and 1.8% respectively, as well as sub-periods, i.e. a "pre-recession" period of 1997 to 2007 (2.8% vs. 2.7%) and a "post-recession" period from 2008 to 2010 (-0.7% vs. -0.8%). Over the period Glasgow's economy added 17.8% (£3.64 billion) of the growth measured at the Scottish level (£20.38 billion).

We can estimate the cost (between 2008 and 2010) of the Great Recession to the city economy. For this, we simply continue the historical growth rate over the 1997 to 2007 period into the years to 2010, and compare against the real GVA series since 2008 with the lost output being the difference between the two lines. These are shown in Figure 1. We can estimate that the output of the city economy would other things being equal have been £1.8 billion higher in 2010 without the recession, with the cumulative lost output to the Glasgow economy over the 2008 to 2010 period estimated at £3.8 billion.

Industrial contribution to city growth performance

While interesting, the aggregate figures mask some of the structural change which has taken place within the Glasgow economy over this short time period. Unfortunately these data do not allow for more detailed breakdown than ten industries, but, although this is reasonably aggregate, some patterns can be identified.

Figure 1: GVA series for Glasgow, actual series and continuation of pre-recession trend



Figures 2a and 2b show the structure of the Glasgow economy in 1997 and 2010 respectively. Several points can be made. Firstly, the share of activity which is within the Production sector has decline by 4.2 percentage points. Secondly, the biggest increase in importance for the Glasgow economy has been in “Business service activities”, whose share has increased by 6.1 percentage points. The share of output in Glasgow in the other private services activities has remained broadly constant. The increase in the share of activity in “Business service activities” is greater than has occurred for the Scottish economy as a whole, demonstrating the new importance of this sector to the city economy.

Figure 2a: Structure of Glasgow economy, 1997

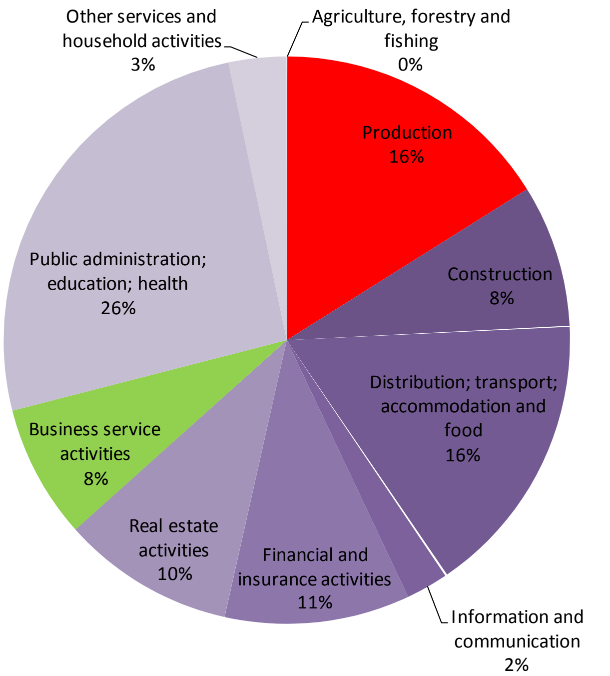
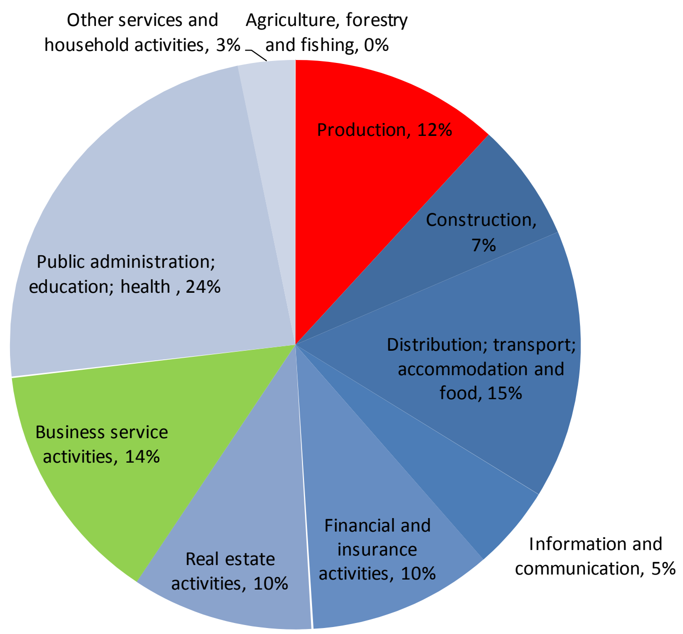
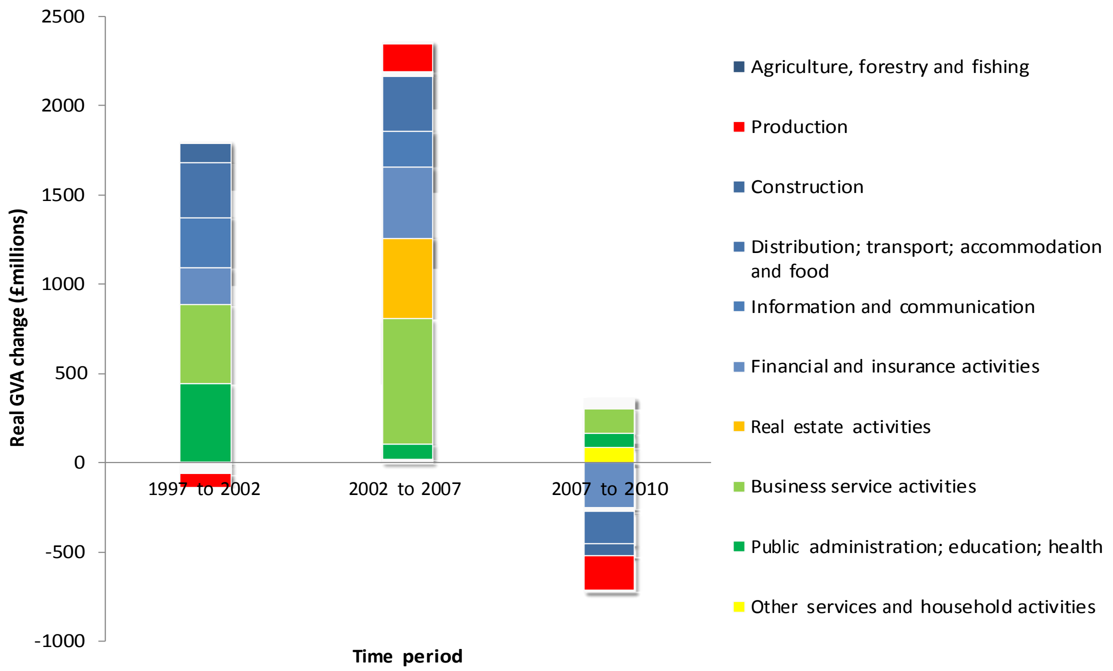


Figure 2b: Structure of Glasgow economy, 2010



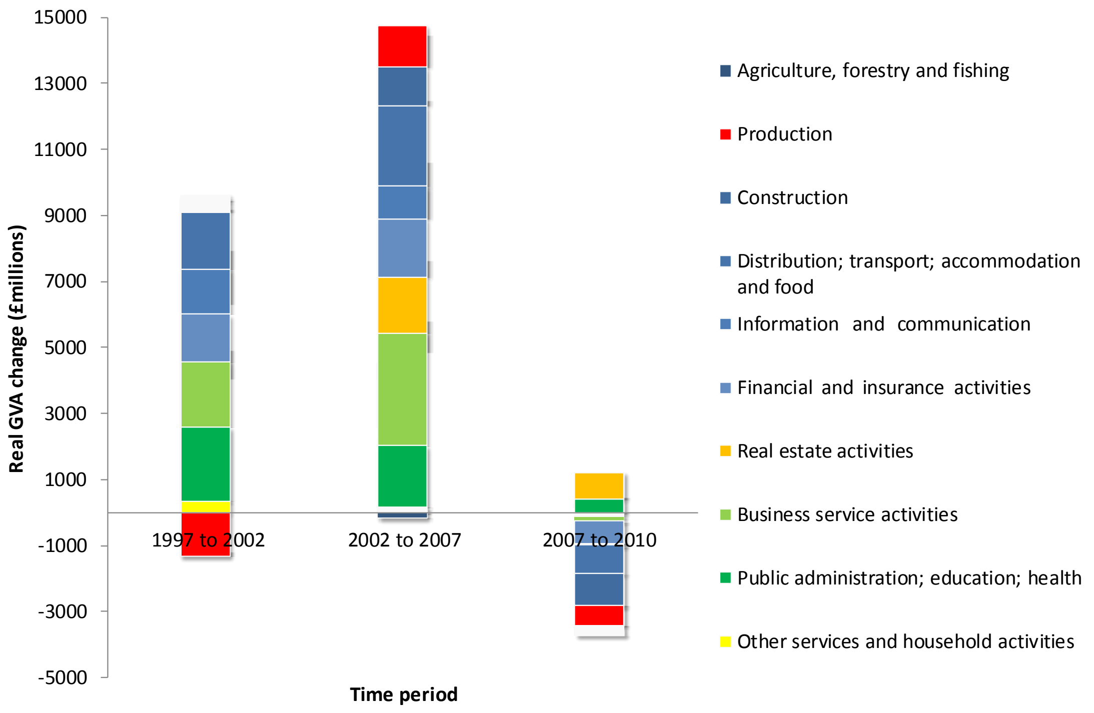
From our dataset we can also look at the time profile of sectors contributions to overall real growth in the Glasgow economy. We can break down the £3.6 billion real growth of GVA for Glasgow down to show the time period and the sector responsible. Over the period as a whole, 35.3% of the growth in GVA was in the "Business services activities", with 16.5% in "Public administration, education and health", 12.7% in "Information and Communication" and 12.2% and 11.8% in "Real Estate" and "Distribution, transport, accommodation and food" sectors respectively. The only one of the ten industries identified in the dataset which made a negative contribution to Glasgow's GVA over the period was "Production", which saw its real GVA fall by £113 million over the fourteen years. The negative contribution to growth by this sector in Glasgow mirrored its negative contribution to Scotland's growth over the same period.

Figure 3: Absolute change in real GVA in Glasgow by time period and sector, £million



Interestingly, we can also breakdown these overall contributions by time period. These results are shown in Figure 3. For example, it becomes apparent that while “Production” activities made a negative contribution over the whole period, for the years between 2002 and 2007 its contribution was positive (£157 million) and fell in both the previous (1997 to 2002) and the recession period (2007 to 2010). Of the ten sectors identified, only four – “Real estate activities”, “Business service activities”, “Public administration, education and health” and “Other services” saw absolute GVA increase in the period post-2007. For the same ten sectors at the Scottish level, only “Real estate activities” and “Public administration, education and health” made positive contributions to aggregate GVA over the period since 2007 (Figure 4). This demonstrates in particular the importance of the growing “Business service activities” sector in Glasgow in alleviating what would otherwise have been a more significant decline in service sector activity for Scotland as a whole.

Figure 4: Absolute change in real GVA in Scotland by time period and sector, £million



Conclusions

In summary therefore, there is evidence that over the fourteen years to 2010 the Glasgow economy marginally outperformed the Scottish economy as a whole, although output did fall between 2007 and 2010 for both areas. Additionally, population growth in the city has outstripped Scottish population growth, even at a time of strong national growth in population. It appears from the data on council-level migration that this is largely explained by a fall in out-migration from the city, which raises interesting questions about recent labour mobility. Further, we have estimated that the Great Recession cost the Glasgow economy some £3.8 billion in lost activity between 2008 and 2010. Further, at the sectoral level we can see that significant change has occurred to the Glasgow economic structure over this short period of time, and the “Business service activities” sector has significantly increased its importance to the city.

There are a number of areas for future research suggested by these observations. Firstly, it would be useful to understand if the pattern of growth seen in Scotland’s largest city been repeated across other major cities of Scotland and the UK, or if these trends are unique to Glasgow. Secondly, it would be useful to explore more about the link between economic structure of city economies and their growth, understanding the contribution of city-specific factors and of more general sectoral trends. Thirdly, it would be useful to examine further the links between the Great Recession and sub-national labour mobility. Finally, it would be interesting to answer the fundamental question of policy and purpose: whether economic growth in Scotland is helped or hindered by strong growth performances of the major cities or if there is a trade-off between growth and spatial economic equality in Scotland.

References

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