LSE Spatial Economics Research Centre

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Cluster Policy and (a tale of) Tech City

Centre for London's Tale of Tech City makes for an interesting read. SERC's Max Nathan was involved and you can read his take on it here. One broad point that strikes me however is that the report highlights the difficulties of cluster policies.

This is a sentiment that is clearly (partly) shared by the report's authors. To my reading, their first three recommendations suggest that they think current government policy isn't getting it right. The most striking of these is the suggestion (I am sure correct) that the government would be wrong to see Tech City as a solution for the Olympic Park legacy problem.

Their next three recommendations are essentially aimed at solving a problem of the government's own making. In a globalised world, high tech industry benefit disproportionately from being able to attract the very talented. The government's immigration policy, to put it mildly, is not helping here. But this as true for many other high tech organisations and not unique to Tech City.

On recruitment more generally, the report makes some suggestions on Recruitment Fairs (with which I certainly wouldn't argue if market participants think worth the costs).

Recommendations around finance and mentoring are the most 'cluster orientated' but also the ones were it becomes trickiest to figure out whether they are the right things for government policy to be doing. Should finance seek to encourage entry or growth? The report appears to plump for both. I am a for competition, but how do we know that government subsidised entry is good for a cluster? Are we sure that mentors' time spent supporting other (potentially rival firms) is better spent doing that than running their own business? Is a £150m Capital Fund aimed specifically at Tech firms a better vehicle than a larger general fund that supports all kinds of businesses (I am sure the former is better for Tech City - so consistent with the report's objectives. But is it the right thing to do from a wider policy objective?).

The report also makes suggestions about the planning policies of the relevant local authorities. These call for more flexibility around, and provision of, affordable workspace. Again, no particular arguments there, but not a problem that is unique to Tech Firms (even if they are more affected than most). Internet connectivity recommendations have a similar feel to them.

Finally we are back to Governance of the strategy itself. Very important of course, because as my comments make clear, we really have no idea what targeted cluster policies should do to reinforce the strength of clusters. There are, of course, many cluster policy advocates who would disagree, but personally I remain highly sceptical.

Posted by Prof Henry G. Overman on Wednesday, July 04, 2012   [G+1] Recommend this on Google

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1 comment:

Max said...

Thanks Henry - sharp as ever. A few thoughts in response.

1) You're right that a lot of the issues we identified aren't specific to digital economy firms. However, many present problems for those firms, which are less salient issues in other sectors.

For instance, by their nature tech firms tend to be higher-risk than other SMEs - so find it harder to get finance, and would benefit from specialised providers who understand these risks.

2) A broader point, which some other people have raised, is whether inner east London is a 'cluster' in a meaningful sense. That is, does it make sense to focus on a 'tech city' geography?

In terms of firm and job density, it's certainly part of a corridor running back into Soho, and one of a number of hotspots around London. Our qualitiative research also suggests it does operate as an ecosystem, at least in terms of production circuits - a lot of these firms are very young, and little, and their business planning and ops benefit from being *very* close together. In many cases they are sharing buildings as well as neighbourhoods. I'd like us to do more research to place 'tech city' in the wider London context.

3) On the Enterprise Capital Fund recommendation specifically - I agree we could be clearer about *where* this is targeted. My feeling is that a new digital ECF should look to invest across the UK - but is likely to end up concentrating on London, simply because this is where the greatest concentration of digital firms is.

There's a separate argument about locating the business *within* East London - where you'd invoke the '20 min' rule that Silicon Valley VCs use (be within 20 mins of all your investments). Certainly Passion Capital have done that (to the extent they have their own co-working space), and others like SeedCamp and Index ventures have also gone East.

4) On governance - our recommendations are more on improving the institutional arrangements that exist rather than asserting that good governance per se

will have a significant causal effect. As we've discussed re: city governance, I suspect the channels will be indirect - a revamped TCIO should be better at co-ordination, advocacy etc., which may then help some firm-level outcomes.

5) On assessing policy - our recommendation 26 is that No 10 and the GLA do some robust assessment of tech city policies - using proper experimental techniques.

4 July 2012 at 19:07

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