

## **McKinsey & Company**

### **Submission to City Growth Commission**

17<sup>th</sup> January 2014

#### **1. What are the key benefits – for the economy, investment, innovation, productivity and public finances – of shifting to a multi-polar growth model, in which our major cities are key players in the nation's economy?**

McKinsey Global Institute research shows that 75% of the GDP per capita gap between Western Europe and the US is explained by the much broader base of large mid-size cities in the US. See evidence on pages 9-14, including the Exhibits, in the report available from the link below.

[http://www.mckinsey.com/insights/urbanization/us\\_cities\\_in\\_the\\_global\\_economy](http://www.mckinsey.com/insights/urbanization/us_cities_in_the_global_economy)

Our global work on cities suggests that China's rapid growth is also fuelled by its midsize cities. This is not the case in India where mid-size city contribution to growth is much lower (see figure 10 on page 11 of the article attached below). We discuss the contrast between the geographic distribution of cities in the US and China vs. Western Europe and India on the first paragraph of page 13.

(See attached file: [JIA Spring 2012 - Cadena, Dobbs & Remes.pdf](#))

Importantly, UK middleweight cities have contributed less to the nation's growth than in its European peers (see Cityscope evidence on the pages below).

(See attached file: [McKinsey Cityscope](#))

#### **2. What does the international evidence show about the role of cities in driving growth and catalysing innovation? What are the key success factors that we can learn from?**

Cities have fuelled economic growth through history and across countries. See evidence in chapter 1 of the MGI report linked below, including exhibit 1 that shows the correlation between urbanization and per capita income across countries.

[http://www.mckinsey.com/insights/urbanization/urban\\_world\\_cities\\_and\\_the\\_rise\\_of\\_the\\_consuming\\_class](http://www.mckinsey.com/insights/urbanization/urban_world_cities_and_the_rise_of_the_consuming_class)

Yet city growth patterns vary widely not just across but within nations. Based on analysis of large US metropolitan area growth over the past 30 years, chapter 2 of our report *Urban America: US cities in the global economy* (link below again) describes the stylized facts of city growth patterns. While we have not published our analyses in other regions, these findings are directionally consistent with our analyses in other regions (including Western Europe).

[http://www.mckinsey.com/insights/urbanization/us\\_cities\\_in\\_the\\_global\\_economy](http://www.mckinsey.com/insights/urbanization/us_cities_in_the_global_economy)

On innovation, McKinsey looked at global innovation clusters to understand key drivers of innovation performance. The main findings are synthesized in the two reports attached below.

(See attached file: [Innovation Heatmap - What Matters.pdf](#))

In our research on UK growth (From Austerity to Prosperity: Seven priorities for the long term- link to report below), we provide recommendations for enabling innovation at scale in the UK, with particular focus on biosciences (see section 2.4 in the report linked below):

[http://www.mckinsey.com/insights/europe/from\\_austerity\\_to\\_prosperity\\_seven\\_priorities\\_for\\_uk](http://www.mckinsey.com/insights/europe/from_austerity_to_prosperity_seven_priorities_for_uk)

The most successful ways to catalyze growth and innovation vary by industry. Below are links to two studies providing specific recommendations for enabling innovative cluster growth in technology and life sciences in the UK.

[http://www.mckinsey.com/global\\_locations/europe\\_and\\_middleeast/united\\_kingdom/en/latest\\_thinking/east\\_london](http://www.mckinsey.com/global_locations/europe_and_middleeast/united_kingdom/en/latest_thinking/east_london)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32457/11-1429-strategy-for-uk-life-sciences.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32457/11-1429-strategy-for-uk-life-sciences.pdf)

### **3. What is the relationship between public service reform and economic growth at city level? How can more effective demand management – through public service reconfiguration and integration for instance – help to drive social and economic productivity? Can this enable our cities to become more financially sustainable?**

While we have not conducted research on this specific topic, the broader lessons for how to make cities successful are directly applicable. Below is a document that sets out a synthesis of key success factors for successful cities from McKinsey's research, extensive city leader interviews, and our own experience working with cities around the globe:

(See attached file: [How to make a city great.pdf](#))

### **4. How can decision making and responsibility for public policy and public services be better aligned with the reality of local labour markets? How can policies around employment support, childcare, skills policy, welfare strategy and economic development better reflect the needs of local people and businesses?**

McKinsey has conducted extensive global research on the relationship between education and employment needs and offered recommendations regarding levers to improve matching, particularly for youth that face high unemployment rates in most regions today (see evidence in the two reports linked below, the one global, the other based on European data (including the UK)):

<http://mckinseysociety.com/education-to-employment/report/>

[http://www.mckinsey.com/insights/social\\_sector/converting\\_education\\_to\\_employment\\_in\\_europe](http://www.mckinsey.com/insights/social_sector/converting_education_to_employment_in_europe)

In the UK, our report From Austerity to Prosperity: Seven priorities for the long term suggests ways in which higher education and health care services can deliver economic growth, fiscal balance, and improved public services in the UK (link below - see section 2.5 starting on page 50).

[http://www.mckinsey.com/insights/europe/from\\_austerity\\_to\\_prosperity\\_seven\\_priorities\\_for\\_uk](http://www.mckinsey.com/insights/europe/from_austerity_to_prosperity_seven_priorities_for_uk)

**5. How can growth in other English cities complement London's economic success? What should be the interrelationship between devolution, growth and reform strategies in London and in our other major cities?**

McKinsey report From Austerity to Prosperity: Seven priorities for the long term(link below again) identified constraints to broader based city growth as a central barrier for UK growth and suggests changes needed. See evidence provided on section 2.6 starting on page 57.

[http://www.mckinsey.com/insights/europe/from\\_austerity\\_to\\_prosperity\\_seven\\_priorities\\_for\\_uk](http://www.mckinsey.com/insights/europe/from_austerity_to_prosperity_seven_priorities_for_uk)

**6. What needs to change between Whitehall and our cities to make multi-polar growth a reality? What does the Centre need to do to enable this and what economic and revenue levers do cities require?**

We have not studied this specifically.

**7. What other practical, organisational, cultural and systemic barriers stand in the way of a fundamental shift in economic power to our cities and how can these be overcome?**

In our report "How to make a city great", the last section addresses the question of winning support for change. It provides recommendations and examples, among others, on how to forge stakeholder consensus, retain talent, or build a culture of accountability (See section starting on page 27 in the report attached above in answer to question 3).