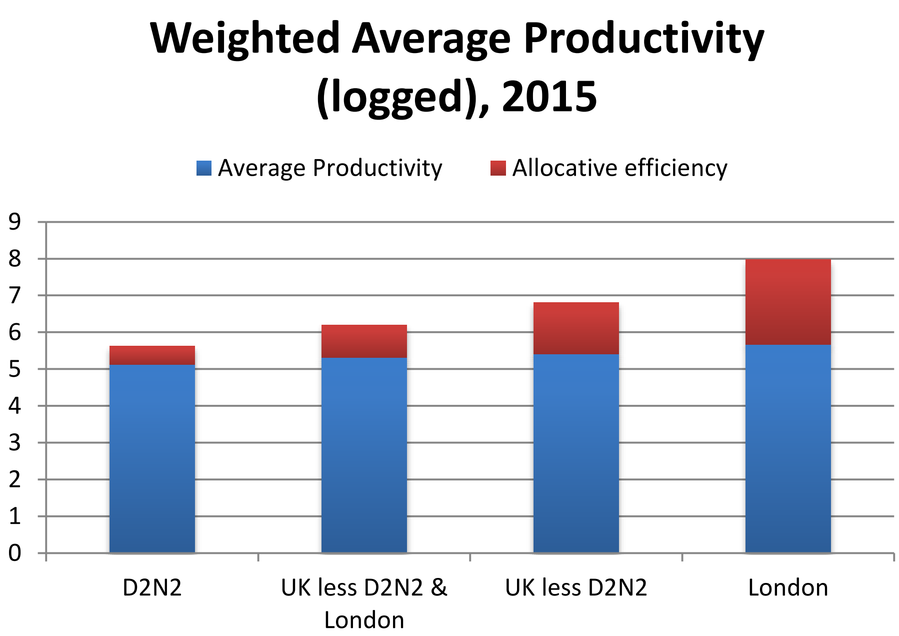
The D2N2 Productivity Gap

Professor Richard Kneller
School of Economics
University of Nottingham
richard.kneller@nottingham.ac.uk

What explains the productivity gap?



- Aggregate productivity is a weighted average of the productivity of each firm
- The sales of the firm provide the weights
- Aggregate productivity depends on how productive the average firm is
- And if productive firms are big or small (allocative efficiency)
- D2N2 has a gap on both measures

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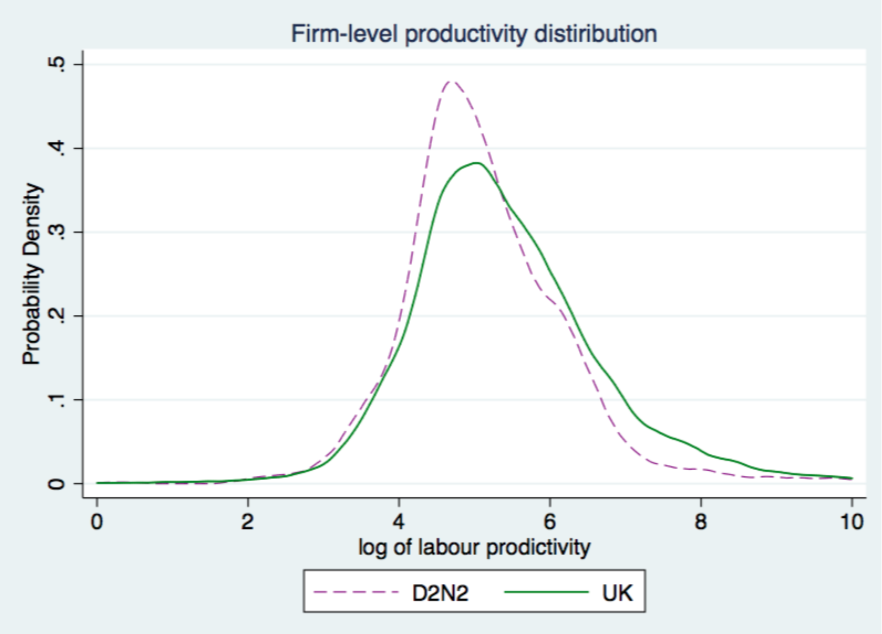

- Comparing the productivity of firms shows that:
- The gap is not at the bottom or the top
- There are more firms in D2N2 with productivity a little below the average and too few with productivity just above
- Those are follower firms – imitators not innovators
- It is not industries or places

How can D2N2 raise productivity?

UK wide	D2N2 specific
• Creation of new technologies • Management Practice and Organisation • Efficient use of new technologies • Access to finance • Entry of better firms and weaker firms to exit • Infrastructure & market access	• Target the middle firms – Increase investment in new capital – Evidence of an export gap – Evidence of a 'management' gap • Support for small productive firms – not just small firms • Skills - limited direct effect, but pays off as a complement to better technologies