Discussion of

A New Lens for Examining Economic Shocks: Urban Adjustments in a General Equilibrium Model

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The view from 30,000 ft

Recap of research question(s)

1. what are the macro implications of London being a clear outlier in size/productivity
2. how does this London/Rest-of-UK structure matter for the response to large shocks like Brexit and Austerity (and Covid?).

Model approach

Tradeable (London) - NonTradeable (RUK) 2-sector model

- **T feature increasing returns to scale** (shorthand for agglomeration externality):
  - people want to locate to London because of the agglomeration
  - London land is expensive
- **Kapital-Land complementarity**: land-expensive London has lower kapital intensity (land demand is lower, so is kapital)

Comments in a slightly messy ordering:

Intro

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- counterintuitive?
- are the two related? IRTS derives from kapital installation patterns?
- (eg) every tech firm wants to build a shiny HQ in King's Cross
  - smells of Cooper-John-style complementarities in big kapital adjustments
  - "I invest here because I see you all investing here (my capex is worth more here with yours)"
  - then London is expensive precisely because of how it is kapitalised
  - true (to a lesser degree) in Birmingham, Manchester, Glasgow?

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Can you rule out some other under-kapitalisation mechanisms

- your story is about productive technology
- why not preferences (eg) London is richer, prefs: nonhomothetic, tilt towards luxuries, tend to be produced with less kapital

Mapping model components to their role in economic mechanism

- more discussion of role played by model features in economic mechanisms
  - (eg) N-demand is a fixed share of total output (no HH side)
  - Q-K complementarity: more equipment only pays off with larger warehouses? I need space to store my output? Machines take up space?
  - *"Venables (2020) shows that economic adjustment to trade shocks can be hampered by the fact that some sectors tend to cluster."* is this empirical or theoretical, what's the mechanism?

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Brexit: shock to $p_T \rightarrow$ Labour reallocates to N$\rightarrow$wages and productivity in N fall.

- Eqn. 2.9 N sector forced to shrink to maintain N-T ratio? Does N need to shrink?
  - is this an eqm result or enforeced?
  - implicit Input-Output structure
  - Leontieff in output of T (1:1 proportional comovement of sectors)
- ($w \downarrow$, $Y/N \downarrow$) concavity of PF: higher N = lower Y/N and lower MPN?
- Maybe more precision definition of productivity as Y/N ratio and not TFP

The Politics of Concavity/ Response to shocks

welfare implications with concavity of $u()$

$$u_j = w_j - bL_j \tag{1}$$

Concavity with Heterogeneity:

- Insurance motives: RUK is poorer so any given shock would be more damaging
- Redistribution motives: no tilt towards closing regional inequalities in HA model
- Complaint of the North: Gov cares too much only about NPV (= London wins) but not about closing inequality
  - Somewhat fitting we are in Manchester, Andy Burnham comes to mind
  - levelling up / Northern Powerhouse etc etc

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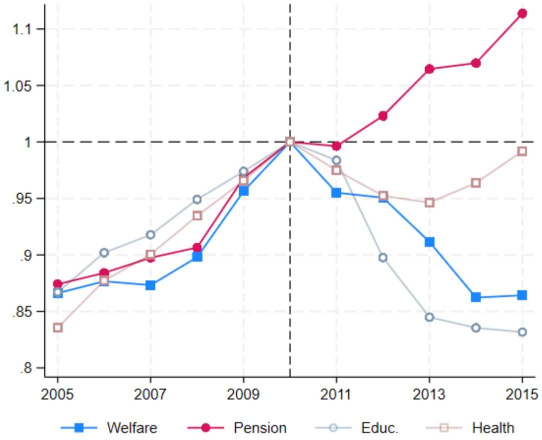
Efficiency Factor markets are competitive, labour is mobile BUT IRTS-for-agglom. externality...is this internalised?

- where's the inefficiency (what can the Planner fix)?
- Description v Prescription: is the takeaway we are fluctuating but it's all on the frontier so we can't really do anything about it? (akin to RBC)

Austerity in the UK: *per capita spending*



Source: author's own calculations based on ONS data and Fetzer (2020)

Figure 1: Real Spending per Capita across major spending groups, 2010=1

Austerity in the UK

Difference-in-differences regressions (local authoirty district level)

- (abysmal) multipliers of more than 2 (if you can believe estimation)
  - local GVA falls by more than £2 for each £1 cut by Gov
  - spillovers to "controls" probably bias estimates down towards zero

- Big Fiscal to the rescue in 2020?

In GE not clear if multipliers will be

- lower (offsetting prices)

- higher (congestion in Labour Mkt, network propagation, non-linearities when aggregating GVA to GDP)