

BOOK REVIEWS

Philip McCANN, Tim VORLEY (eds.), *Productivity and the Pandemic. Challenges and Insights from Covid-19*, Edward Elgar Publishing, Cheltenham/Northampton, 2021, 305 pages

The persistent weakness of the development of the United Kingdom's productivity after the 2008/09 crisis has posed a major challenge for economic policy, and this problem has a clear spatial dimension. The *Productivity Insights Network*, a multi-disciplinary network of social science researchers investigating the UK's productivity puzzle, published a timely book on the challenges in a post-Covid economy. Addressing a wide range of topics related to the possible impact of the Covid-19 pandemic on labour productivity, the book consists of 21 chapters prepared by 46 contributors. Given the broad perspective of the volume and the limits of this review, we have chosen to focus on the parts of the book most closely linked to the topic of entrepreneurship, innovation, and business growth. Therefore, below we will discuss chapters 1, 2, 3, 4, 5, 6, 12, and 20.

Chapter 1 takes a detailed stock of the impacts of the virus-induced crisis observed and anticipated in the first year of the pandemic in an international and a UK context. The authors first set the scene for the whole book and describe the nature of the pandemic crisis, and the reaction of the different sectors to the supply and demand-side shocks. A subsection of this chapter is devoted to the quakes in the financial and capital markets that hit the SME sector through credit contractions, the real estate industry through radical uncertainty, as well as economic development projects. The patterns of recovery may differ between countries and regions, but the most likely outcome will be the widening of the gaps between the economic core and the periphery. This phenomenon has also occurred in the UK,

since the economically weaker regions have been the most adversely affected by the crisis, e.g. due to the reduction of workforce, business dissolutions, increased investor risks, whilst service sectors in London are among the least affected sectors. As a result, widening inter-urban and inter-regional inequalities challenge the 'levelling up' agenda.

With the help of a series of stylised facts, Chapter 2 discusses 'the long tail of less productive firms' in the UK in comparison to their main international competitors. At the upper side of the distribution, frontier firms are vulnerable to the shocks caused by global value chains, as productivity and demand shocks 'travel up and down the value chain.' The author discusses the role of creative destruction in clearing the market, thereby increasing overall efficiency. However, this effect has been weak after the 2008 financial crisis, partly due to labour market conditions. The last subsection of this chapter concerns several pandemic-relevant questions, including the impacts of trade restrictions, reshoring tendencies, increasing concentration of businesses, the constraints to the diffusion of technologies to laggard firms, as well as the impacts of government subsidies on creative destruction. Positive impacts can be expected if the crisis induces some firm-level solutions that may increase efficiency, productivity, and resilience to future shocks (Chapter 3). Reshoring of supply chains may create new opportunities, assuming that domestic suppliers are competitive enough. Accordingly, coordinated central and local government policies are required to develop the business environment, and local governments need to engage in supporting innovation, skill development and infrastructure development. Chapter 4 refers to this as fostering the productive culture of entrepreneurship through digitisation, the adoption of management practices, (public) schemes for business growth financing, and a local high street redesign.

Chapter 5 discusses the implications of the Covid-19 crisis on the functioning of entrepreneurial ecosystems (EEs), and their various stakeholders (banks, business incubators, accelerators, universities, venture funds, government-funded entrepreneurship support organisations, and business angels). EE as a 'new' market-oriented industrial policy with its stress on entrepreneurial agency and localised determinants of firm success was widely embraced by national governments across the globe in the post-2008 era. Overrepresented in successful and large EEs, the disproportionate role of high-growth enterprises (HGEs) or scaling-up firms in job creation, productivity and exports is particularly evident in the UK economy. The pandemic has placed HGEs centre-stage in productivity recovery, prompting the government to direct a coronavirus support package to protect these firms. The efficiency and integrity of EEs may be undermined by several developments induced by the Covid-19-crisis, such as the decline of seed and venture capital finance targeting this narrow cohort of firms, a transition to remote work, online networking, and the reduction of relational interactivity, alongside delays in angel and VC investments. The authors argue for stronger governmental in-

terventionism to enhance the ecosystems' robustness and resilience to external shocks and joint action with ecosystem leaders to boost the relational capacity of EEs and business angel and venture capital financing.

Chapter 6 links the prospect of sustainable post-pandemic recovery to the availability of risk capital for ambitious start-ups and scale-ups, which would be put into peril by an eventual contraction of the business angel market. In addition to fostering more risk averse behaviours among investors, the pandemic has triggered a sectoral shift in angel investments toward Fintech, Remote Education and Health/Med Tech. Despite a continuation of business angel investing, the chapter forecasts a drop of aggregate angel investment activity in the years 2020-21 based on the perceived decline in seed and start-up investments. To reverse this trend, the government is urged to increase tax incentives for business angels and introduce co-investment schemes such as the *Future Fund*. Complementing tax incentives, non-dilutive finance programmes comprising grants for innovation and commercialisation essentially support pre-revenue seed entrepreneurs. The review of policy measures indicates that the government, by adopting a top-down approach to crisis management, has sidelined the issue of exacerbating regional economic inequalities whose deleterious impacts on national productivity were amply exposed in pre-pandemic analyses.

When this book was being written, one timely question was that of the pattern of the expected economic recovery, and Chapter 12 supposes that an asymmetric 'L-shape' is the most likely scenario in the UK. The Covid-19 crisis has been different from previous recessions, for example, when it comes to the sectors involved or the scale of the falls. However, the recovery may take on some typical forms as experienced after previous crises, such as households accumulating financial assets, firms deferring investments, and a possible interplay of employment and output dynamics with strong cyclical effects on productivity. Even though some local areas are initially hit hard by the recession, what really matters in the long run is their capacity to revive, which may be determined by local sectoral composition and the regional specialisation. The Covid-19 crisis is expected to have a harder impact on the more peripheral areas of the UK. During the recovery, the automation initiatives may have adverse effects on job markets in these regions, and insolvencies may damage their capacities. Government policy responses (furlough schemes, business loans) may postpone a part of the output shock, and public investments will focus on job creation and the demand side. By dint of this policy intervention productivity resurgence and creative destruction may not take place in the short run.

Chapter 20 highlights the shifting priorities of top-level innovation policy under post-pandemic recovery. Generally speaking, the UK as a world-leading innovation hub is strong in frontier technology development, but not in the diffusion and dissemination of innovation. The Industrial Strategy of the UK addresses the problem of low productivity and underinvestment in R&D, confirming the UK's

commitment to raising the level of overall R&D spending driven by frontier tech firms and the diffusion and scaling of the use of innovations. Innovation policy (through the provision of equity aid) is urged to play a pivotal role in ensuring the growth of earlier stage and frontier firms that have been hit hard by the decline in R&D expenditure and private equity investments. The intensification of digital technology diffusion and adoption by businesses is likely to alter business models and working practices in the long run, placing remote interaction and home-working at the centre. The chapter presents the pandemic as an opportunity for policymakers for rebalancing the economic and social objectives of innovation policy. The centrality of innovation system thinking is emphasised in the efficient delivery of the economic and societal objectives of innovation policy (fostering goals in the field of environment, health, well-being, security, resilience, etc.) beyond those of growth and productivity. The pandemic has also impacted the nature of policy outcomes, their evaluation and measurement, with new areas, such as behavioural change, the societal diffusion of new approaches and practices, as well as health and environmental outcomes prioritised over the more traditional outputs of innovation policy.

In summary, this book provides good guide to understanding the diverse implications of the pandemic crisis in exceptionally uncertain times. We highly appreciate that the contributing experts undertook the effort to consider the emerging pandemic-related trends and prospects at a relatively early stage after its onset. The limited temporal focus does not allow for drawing premature conclusions on the nature of post-pandemic productivity and business recovery in the UK, but it is safe to say that the impacts will be profoundly uneven across different sectors and geographies, with large industrial clusters and spatial agglomerations recovering faster than non-metropolitan or lagging areas. That said, the main messages for productivity upgrading are valid not only for the UK, but for other regions experiencing spatial inequalities and low productivity performance such as Central and Eastern European countries.

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