Clusters, Localisation and Agglomeration

What is an industrial cluster?
- Geographical concentration of economic activities (can be at a variety of scales)
- These concentrations are seen as by-products of cost savings linked to spatial proximity
- In English: When economic activities in a particular place are connected together, each firm in the locale experiences benefits from the cluster as whole
- This is due, primarily, to the creation of external economies of scale - in other words, individual firms reap the benefits of ‘stuff’ not on their balance sheets as costs

What are external economies of scale then?
- The presence of ‘positive externalities’ enables cluster development and growth
- These are things that are external to a firm but internal to a cluster
- They help individual firms within a locality lower costs
- For example:
    - Having access to a pool of labour with particular skills that would drive down search and recruitment costs
    - Limits the costs of ‘traded interdependencies’ (i.e. being close to another firms keeps transaction and transport costs down).
    - Maximises ‘untraded interdependencies’ – things like knowledge sharing, innovation and collaboration, creation of local ‘buzz’

Two types of cluster/agglomeration to begin with…
1. Marshalian agglomerations & industrial districts
    (a) Based upon Alfred Marshall’s research in the early 20th century
    (b) Focus upon the coordination of many small, specialised firms in one locality
    (c) The notion of ‘industrial atmosphere’
    (d) Conceived of firms as ‘atomised’ competitors
2. Italianate industrial districts
    (a) An approach developed in the 1970s and 1980s focusing upon the interdependence among firms in a locality.
    (b) The notion of ‘cooperative competition’
    (c) Importance of trust between actors

1. Alfred Marshall
- Was one of the most influential British economists of the late 19th and early 20th centuries
- Local clusters shared ‘pools’ of inputs that would raise factory productivity:
    - Land, labour, capital, energy, sewage, transport and production ‘know-how’
    - This sharing creates a locally specific ‘industrial atmosphere’ that cannot be easily replicated - a kind of ‘organic phenomenon’
- Two examples focused on:
    - Cutlery and steel in Sheffield
    - Textiles in Lancashire

Relevance of his work
- Among the first to recognise that agglomeration saves costs:
    - Lowers transaction costs (such as transportation)
    - Firms can specialise in one part of the commodity chain
    - Stimulates innovation through competition