How did London Get Away With it? The Recession and the North-South Divide

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Henry G. Overman

LSE Works 20th January 2011
London won’t get away with it
Why did no one see it coming?

QE=2 - \[0.433((r+e+n)/3)^2) / \sqrt{((r+e+n)/2)((r+e+n)/2)-r}((r+e+n)/2)-e)\]
CREDIT CRUNCH WILL SQUEEZE LONDON

The dark underbelly of London's boom

'Tough year' for London tourism

This time round we are all in it together

It's grim down south

Recession Britain: Grim down south

London ‘worst hit in a recession’

Corby best placed to ride out recession

City groups set to advise Darling
Daily Mail: The recession map of England: London and South-East to lose one in 12 jobs over next 18 months
Overall, if these two [credit crunch and commodity prices] shocks lead to [...] recession, the impact on output and employment levels in London can be expected to be disproportionately strong.

Professor Ian Gordon, LSE
The immediate effects of the recession are being felt most heavily in Greater London, which has had a disproportionate share of jobs in financial services, construction and retail over the last decade. But it’s not necessarily ‘Grim Down South’

Centre for Cities
In the 1980s slump, the North suffered; in the 1990s downturn, the Home Counties; this time, the misery may be more evenly spread geographically [...]. It will probably be the most "white collar" recession in history.

The Independent, Oct 2008
Conventional wisdom suggests that recessions tend to spread misery around. If this is true, we might expect the "north-south divide" to narrow over the coming months, particularly if sectors over represented in the south (e.g. financial services) are especially hard hit.

Prof H. G. Overman, LSE
Did London get away with it?
The labour market and GDP

<table>
<thead>
<tr>
<th></th>
<th>London</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak-to-trough change output</td>
<td>5.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>% point change claimant rate</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Change in employee jobs</td>
<td>-2.6%</td>
<td>-3.9%</td>
</tr>
</tbody>
</table>

Source GLA economics
% Change House Prices Q1 08 to Q3 10

DCLG Regulated Mortgage Survey
% Change Prime Office Rents (Sept10)

Cushman and Wakeman Marketbeat data
Theatre box office (£m)

The Society of London Theatre
“Stand up if you’ve got a job”

% Change Average Premier League Crowd 2007-2010

North

Mid

South

ESPN soccer net
Mappiness (London Blues?)

http://www.mappiness.org.uk/
How did London get away with it?
(Not) A middle class recession?
The middle class and their “help”

UK (% change employment 2007-2010)

Professional  Admin/Trade  Service  Basic
Where the middle class live

Share of occupation by region 2007

Professional  Admin/Trade  Service  Basic

North  Mid  South

LFS
London’s (working) poor didn’t get away with it

% Change by Region

Professional Admin/Trade Service Basic

UK North Mid South

LFS
Socialist republic of London?
Shares of public sector employment 2007

ONS regional statistics
Change in public sector employment

Change in employment 2007-2010 (000s)

ONS regional statistics
Greedy bankers and bail outs?
(Direct) cost of the bailout

- August 2010 financial intervention increased net borrowing £111.6bn
- Govt ~70% RBS = £18bn
- Govt >40% Lloyds Group = £20bn
- Value Northern Rock not estimated
- Asset Protection Scheme at least E£5 bn]
Share of bail out jobs

ONS regional statistics
The Bail-out Valued as Subsidy

• Haldane (2010) value *reduced cost of borrowing*
  – Diff in credit ratings ‘support’ v’s ‘standalone’
• Implied (extra) subsidies are:
  – 93% to Big 5 (the ‘too big to fail’)
• Half of gross surplus in (financial intermediation) sector goes to labour
• Relevant workers concentrated in London
FBS GVA as % London total

All Sectors

Financial and Business Services

Distribution, Hotels & Catering Output
Other (mainly public) Services Output
Construction Output
Business Services Output
Transport & Communications Output
Manufacturing Output
Financial Services Output
Other Output

Experian
Doing the maths

• In 2008 London GVA was £265bn.
• So potentially very large impact
• 16% of 265bn GVA = £42.4bn
• Smaller than £59bn subsidy …
Digging holes
What got hit, where?
## Changes sectoral employment 2007-10

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share 07</th>
<th>Change</th>
<th>Share 07</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Manuf</td>
<td>11%</td>
<td>-10%</td>
<td>3.4%</td>
<td>-27%</td>
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<tr>
<td>Const</td>
<td>7.6%</td>
<td>-16%</td>
<td>5.2%</td>
<td>-8%</td>
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<tr>
<td>Accom</td>
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<td>-17%</td>
<td>6.5%</td>
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<tr>
<td>Finance</td>
<td>3.2%</td>
<td>-10%</td>
<td>7.2%</td>
<td>5%</td>
</tr>
<tr>
<td>Prof</td>
<td>5.7%</td>
<td>-7%</td>
<td>11.6%</td>
<td>9%</td>
</tr>
<tr>
<td>Admin</td>
<td>7.0%</td>
<td>-6%</td>
<td>10.6%</td>
<td>-13%</td>
</tr>
</tbody>
</table>

*Workforce Jobs Survey*
Fiscal and Monetary Policy: Gordon (not George?) to the rescue?
Expenditure per Head (2009)
Expenditure as % GVA (2008)
£20bn less mortgage payments

GLA economics
Regional shares GVA
Rats, Immigrants and Fat Cats
• Hours worked dropped
  – 2% in London
  – 0% elsewhere
• Enough to explain the 1.3% differential in change in employee jobs
• Real wages probably fell more in London
• Doesn’t explain GVA figures
(Illegal) Immigrant London?

4,650,000

\[ \times 1.3\% \]

\[ = 60,450 \]

\[ / 331,470 \]

\[ = 18\% \]

381,000 irregulars

(13\% children)

Employment

Differential employee jobs = (3.9\% - 2.6\%)

% irregulars leaving

GLA economics and LSE
The very wealthy

- Times rich list (top 1,000)
  - 2008-09 down £155bn
  - 2009-10 up £77bn

- Prices
  - Fine wines and Beluga caviar down 8%
    2008/09, up 24.1% over the past year
  - 0.6% increase private jets, chauffeur service, and exclusive hotels in St Tropez.
  - 5.6% fall for goods and services [full-time housekeeper, Westminster School fees, Botox and rental house Kensington & Chelsea.]
Did London get away with it? (Redux)
Threats?

• Public sector employment and civil service head count?
  – Mitigated by small employment shares
• Banker’s bonuses and regulation
How London got away with it
(No) middle class recession

• London did get away with it
• How did London get away with it?
  – Not a middle class recession
  – Middle class over-represented GSE
  – GSE middle class did better than elsewhere
Why did London get away with it?

• Minor factors
  – Public sector, fiscal, monetary policy, non-doms, migrants

• Major factors
  – Bail out?
  – Consolidation in banking sector?
  – A wide & more flexible labour market?
  – Most able in London?
Some Londoners didn’t get away with it

• London’s poor didn’t get away with it
  – Capital projects (inc. Olympics)
  – Employment
  – Housing (including benefit reform)
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