THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

London's Place in the UK Economy, 2009-10



CITY OF LONDON

October 2009

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London School of Economics

Houghton St
London WC2A 2AE
Tel: +44 (0)207 405 7686

www.lse.ac.uk

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Foreword

Stuart Fraser

Chairman, Policy and Resources Committee

City of London

As we move out of recession, the close relationship between the economy of London and the other UK regions will remain important and mutually beneficial. This is evident through access to larger markets, the provision of specialised services, greater employment opportunities and net tax contributions. In this, the eighth annual edition of *London's Place in the UK Economy*, a report which evaluates the role that London plays within the wider UK economy, the London School of Economics analyses the key economic trends driving the relationship between the capital and the regions. It demonstrates the catalytic role that London continues to play in shaping the international offer made by the UK economy. While London has suffered from the serious global recession that has affected its trade flows and its financial services especially, it has, the report concludes, helped to mitigate the falling activity in all of the UK regions.

In particular this recession has had severe implications for the balance of government finances and emphasised the importance of the relative contribution made by London's businesses and households to supporting other regional spending. In terms of total tax revenues, London's contribution amounts to approximately 18% of the UK total. Although this has declined in importance as a result of the downturn in the financial services sector, the net contribution remains positive - this is estimated to be in the range of £14.3bn and £19.4bn in the fiscal year 2007-08. The South East makes a slightly higher net contribution than London, according to the analysis.

The special article in this edition of the report focuses on outer London's place in the wider London economy, looking particularly at its inter-linkages with central London. Outer London boroughs obviously serve as residential areas, housing commuters working in the central business district. However, it is apparent that on most economic and population indicators outer London has more in common with the rest of the country than is does with inner London. In addition, within the outer London boroughs there are extensive service activities devoted largely to servicing the needs of local residents, more so than is the case in central London. As a result there is a slightly larger labour force at work in outer London than is the case in central London.

The forecasts presented in the report by the consultants Oxford Economics indicate a return to relatively healthy growth for London after the recession. However, this is not guaranteed. Alongside this message of cautious optimism, there are other plausible scenarios pointing to the possibility that London might experience lower growth rates than in the past. This could arise as a result of tighter regulation of the financial services sector. Other potential factors that might put a brake on London's progress include a move towards protectionism and weaker political support for London in the wake of the financial crisis. Against this backdrop it is therefore important for Government – central and regional – and industry to work together to ensure we get the appropriate regulatory outcomes and continue to provide the benefit of free and open markets.

Stuart Fraser

London

October 2009

Executive Summary

Long term trends

- Over the last three decades London's output has grown more rapidly than the UK as a whole. London's share of UK population and employment has grown only slightly, however. Faster growth has principally reflected stronger earnings and productivity from an increasingly well qualified workforce attracted to the city.
- Trends in unemployment and worklessness have been less favourable in London than elsewhere in the UK.
- The population of London has been growing since the late 1980s after half a century of decline. The growth has been particularly strong over the last decade as net migration from overseas has risen, only partially off-set by more out-migration from London to other parts of the south east.
- London's relative strengths have been most evident in financial services, but also include information and communication, professional services and the arts, where employment growth has been much stronger. This mix is reflected in the very high proportions of managerial and professional occupations.
- London's increase in jobs has reflected a specialization in the growth industries of this period. Both output and employment levels have, however, been more volatile than in the rest of the country.
- Productivity is much higher in London than other city regions. Yet London's record on innovation is less strong than in the rest of the south. Its strength lies in the relative youth, education and skills of its workforce, the diversity of its economy and its responsiveness to market opportunities.
- Performance of a wide range of business and creative services reflects these competitive advantages. Additionally, financial services have benefitted up to now from a combination of strong incentives, liberal immigration controls, complementarity with New York, and a principles-based regulatory regime.

The last decade: the labour market

- Labour supply in London has kept pace with the upturns in employment demand as a result of much higher rates of in-migration. But the pressure of demand for labour has remained one of the highest in the country.
- Average London's earnings are about 50% above the UK average. For the median worker, however, the differential is substantially less, and is only 25% for the lowest decile. At a given occupational level the difference averages under 20%.
- London's employment rate, at 71%, is 3% below that for the UK, reflecting relatively high levels of economic inactivity and unemployment. With respect to unemployment this basically reflects a concentration of disadvantaged groups within the London population. For the voluntarily inactive, however, there is no straightforward explanation for the difference but it may in part be an outcome of recent migrants depressing wages in the lowest tranche of jobs.

The last decade: the housing market

- London's housing market has tightened over the last decade as the growth in households exceeded the growth in the housing stock. However the increasing importance of the private rented sector has made the available stock more flexible. Despite higher demands, housing completions have generally been disproportionately low – and mainly taken the form of small flats.
- The rate of growth in house prices in London over the decade until 2008 has been considerably more rapid in London than elsewhere in the country, especially for first-time buyers.

Standards of living in London

- While average incomes are over 40% above the national average, once taxes and benefits are taken into account this advantage drops to 26%. Living costs are also clearly higher especially with respect to housing although the recent slower growth in rents has reduced the differential slightly.
- Taking this into account, the average differential between London and the rest of the country is as little as 10-12%. Indeed at the lower end of the income scale, this differential could be much lower, or even negative.

Recent developments

- Both the London and the wider economy are currently in recession but the extent of decline in London initially was less than expected. Increases in unemployment were concentrated in the industrial regions in the Midlands and the north with the south escaping relatively lightly. Indeed employment continued to rise until the spring of 2008 but then fell relatively slowly by some 1.8% over the next three quarters.
- Thereafter the speed of job loss appears to have accelerated and to be more concentrated in London. Rates of inactivity have also increased more sharply in London than elsewhere.
- House prices since 2008 have also fallen somewhat more in London than in the country as a whole, although they are now beginning to pick up more rapidly and market surveys are far more positive than for the country as a whole.
- Housing construction peaked in the middle of 2008 but then fell precipitously, though less in London than elsewhere in the country. Commercial rents and development have been worse affected, although even here there are the first signs of improvement.
- Overall, and against initial expectations, the statistics point to London suffering rather less than the country as a whole from the immediate effects of the credit crunch but rather more from the subsequent recession. It is too early to say whether London is coming out of the recession, or doing so more rapidly than elsewhere.

Outer London's Place in the London Economy

- The broad profile of employment in Outer London confirms that it has more in common with the national economy than with Inner London.

- Outer London has relative strengths in transport-related functions, in information and communications, but less finance than Inner London and lower involvement in manufacturing than areas outside London.
- Employment in Outer London has shown some long run growth, but very much slower than in either Inner London or neighbouring areas outside London. Productivity is around 15% above the national average – but about 30% less than in Inner London.
- Outer London's markets tend to be relatively locally oriented, with 42% of sales within the local borough and a further 29% within Greater London.
- In terms of the labour market, the picture is the reverse, with half of employed residents working elsewhere (increasingly so, given faster job growth in adjoining sub-regions).
- Overall Outer London has relatively few areas with strong economic assets and its competitive performance is relatively weak.
- Government plans include large scale residential development and increased development densities in some outer areas, notably in the East of the capital. These are likely to boost population growth much more than jobs.
- There are growing concerns from Outer London authorities about employment and the potential for economic growth as well as about levels of investment especially in transport and infrastructure. These are not, however, closely connected to sources of residents' concern about quality of life.

Public finances

- Public spending is relatively high in London, both in overall and per capita terms. The differentials are lowest for health and social protection but relatively high for public order and housing and indeed economic development.
- When the scale of the London economy is taken into account. However, public expenditure as a proportion of GVA is almost the lowest, some 24% below the national average.
- On both a residential or a workplace basis London generates about 18% of tax revenue, but receives around 14% of expenditure. This implies that in 2007/08 London contributed between £14 and £19 billion to the rest of the country.
- Public infrastructure spending in London as a proportion of GVA has been growing quite rapidly since 2001. Transport and housing together were some 2.3% of GVA in 2007/08 as compared to only 1.1% in 2001/02. Even so overall capital spending at 3.4% of GVA is only around the national average.
- London has done relatively well in terms of capital spending in the light of recession. In particular London's share of the Homes and Communities Agency budget for infrastructure and housing is 29%, in part because many schemes are 'shovel ready'.

Prospects and issues

- Using past trends as a basis, employment in London can be expected to rise by some 20,000 p.a. over the next twenty years or so. This is about half the rate assumed in the London Plan. Trends are not very clear, however, and the range of possible outcomes is between near-zero change and a growth of around 40,000 p.a.
- Population and households are expected to increase more rapidly than in the country as a whole, but numbers may be constrained by pressures in the housing market as well as lower net migration and the recession.
- The forecast by Oxford Economics to 2019 suggests a rapid return to positive growth from late 2009 and an average growth rate of 2.9% p.a.
- Other plausible scenarios would suggest lower growth rates as a result of tighter regulation of the financial sector, a retreat from global competitiveness, failure to pursue more sustainable macro-economic policies, and/or less political support for London in the wake of the crisis.
- Much of London's potential success depends on what is happening in the global economy. London can improve its own position by broadening its economic base, though it is unclear whether this would substantially reduce the apparently greater volatility of the London economy.

Chapter 1 Introduction

1.1 Introduction

The current recession, with its origins in a wholesale banking crisis but with its major impacts so far in industrial regions of the midlands and north, provides a new context for addressing the question of how London's economy relates to that of the wider UK. It has emphasised again both how distinctive London's economic role is within the UK economy and how deeply embedded it is within the national economy.

Over the past quarter of a century, the distinctness and pioneering role of the London economy has become increasingly evident as it has led the way from an industrial to a knowledge economy, and has become an increasingly cosmopolitan centre, engaging strongly with people, businesses and cultures from all around the world. In the process it has prospered greatly, mobilising and then upgrading a talented labour force, drawing on a very wide range of specialist service capabilities, and a competitive environment, to secure levels of earnings and productivity growth clearly exceeding those in the rest of the UK.

In many ways, London's success over this period epitomises the resurgence of cities in the developed economies, (and echoes the surge of those in developing societies), highlighting the kinds of agglomeration economies which have come to be recognised (again) as critical to the economic and cultural vitality of societies. As elsewhere, benefits have spilled over into other regions of the country: through diffusion of innovations and spinning-off of activities for which the city offers less strong advantages, by offering opportunities for advancement to talented/ ambitious young people from all areas, and by generating increasingly large tax revenues to support services and public investment across the UK. Its cumulative success in what are now the dominant sectors of the UK economy does, however, pose challenges as to the best and most complementary roles for other cities to develop.

There are challenges within London too, arising from its particular role, and the way this has developed. Growth has been associated with both increasing inequality and increasing volatility in the economy. Not all Londoners have benefited substantially in real terms from the combined effects of growing incomes and rising living costs. High recent rates of immigration to London, whose overall economic effects appear to be positive, seem to have significantly depressed wages at the bottom end of the labour market. Falls in the rate of worklessness proceeding in the 1990s have been interrupted, and at the start of this recession the London rate was actually higher than that in any other official region.

And boom has given way to bust again, though not yet with quite as severe effects on London as had been anticipated, or as in the last recession. On the one hand, this is liable to present serious social challenges in London's substantial areas of concentrated deprivation. On the other hand, this aspect of short-termism in the financial market economy presents fiscal and political challenges, in relation to sustaining commitments to the large scale infrastructural investment on which London's longer term success depends.

In appreciating the relationship between London's distinctive economic role and developments in the wider economy, one of the complicating factors is that for particular economic purposes the real 'London' economy has quite different spatial scales. Sometimes it is concentrated in particular localities around the central area, while sometimes it operates via networks spanning the whole of the Greater South East (GSE) stretching at least from Cambridge to Brighton. In this report we focus on the administratively defined Greater London area, identified physically with the break in development created (since the 1940s) by the Green Belt, and politically by the authority of the Mayor and his various formal Plans/Strategies for future development. Because, in many respects the London economy spreads more widely, we shall also at many points make comparison with characteristics of the wider GSE.

The starting point of the report is an analysis of structural characteristics of the London economy, and longer term trends in its development, across recent economic cycles (chapter 2). There follows an examination of its competitive performance, both at aggregate level and in relation to four key sectors (chapter 3), and of how this gets translated, via labour and housing market processes, into differing sets of effects on the welfare of the London population and various groups within it (chapter 4). Developments since the onset of the downturn are then assessed (chapter 5). As in previous editions of this report, there is a special topic, which this year is the Outer London economy, currently being reviewed by a Mayoral Commission (chapter 6). A final pair of chapters turn toward issues of public policy, examining the current fiscal position of London within a UK context, and how this relates to the funding of necessary infrastructure development/maintenance in the city (chapter 7), and the challenges which are posed by uncertain future prospects. These are examined in the light of both 'baseline' economic and demographic projections and a number of more qualitative scenarios for alternative possible outcomes from the current recession and its aftermath.

Chapter 2 Context and Long-Term Trends

2.1. Introduction

The current economic crisis has presented two kinds of shock to those involved in or with the London economy. One of these is immediately economic, in terms of more or less sharp contractions in demand for various products, services and investment opportunities and/or major constraints on financing new projects, purchases or even routine business operations. The other is more psychological, involving a questioning of assumptions previously taken for granted about the viability and fundamental competitiveness of some core elements in the London economy, notably in finance and directly linked business service.

In fact, as will be spelled out in chapter 5, the evidence so far available on the first year or two of the crisis does not show that the London economy has been especially badly hit, to date. In any case, however, it is important to see the city's current economic situation, and these two shocks, in relation to longer run evidence about the behaviour of the London economy, its structural strengths and limitations, and how this economy has responded to previous sets of economic shocks.

In particular it is important to understand that:

- this metropolitan economy has fundamental strengths which will be of continuing relevance in the economic context which can be expected to prevail after the present crisis has run its course; and that
- substantial cyclical volatility is an integral part of the new London economy which has developed over the past quarter century, representing a side-effect of its dynamism, rather than evidence that this might wane.

This chapter takes a long term view of developments in London's position in relation to the wider UK economy during the last quarter-century. The focus on this particular period (from the early-1980s) is because it represents a new era, in which London's traditional strengths as an international metropolis and centre for specialised services come to be revalued in the context of more intense, quality-oriented competition within an increasingly liberalised and integrated global economy. In these respects it is substantially different from the previous half-century (from the 1920s-1970s), both in its economic logics and in terms of London's particular role within the UK economy.

In our judgement, the fundamental sources of competitive advantage operating during the period considered here will continue to shape London's position, in the period beyond the current recession, and present concerns about the position of specific sectors within the London economy. This judgement may, of course, turn out to be incorrect – and in chapter 8, about future prospects, we consider not only a baseline projection assuming a continuation of the broad economic context of recent decades, but also a number of scenarios relating to conceivable shifts in key aspects of that context.

Before considering the most recent developments since the downturn, it is important to establish the longer term patterns and processes out of which the recent changes

emerge, and to distinguish these longer term trends from the particular circumstances of the boom years immediately preceding the current bust.

For much of the 20th century, London's role had been quite different from that seen since the 1980s, largely because external economic and political circumstances were quite different. During this period when mass production, largely for domestic markets, by increasingly concentrated corporations, was the dominant factor, London came to be the UK's largest industrial centre, at the heart of its biggest market.

Prior to that period, however, London's historic position was that of the economic, political and cultural capital of a centralised but outward-looking nation. And it is the strengths established from that position - particularly flexibility, knowledge and international connections - which have become key to its current role in a post-industrial UK facing a highly competitive global economy. These assets became crucial again from the early 1980s, restoring London's true economic pre-eminence, as a result of three linked developments in the broader economy: the acceleration of international economic integration; the tipping of the balance of British comparative advantage from manufacturing to advanced service-activities; and an increased emphasis on the value of flexibility, deregulation and market-based co-ordination

As in the past, London remains the seat of governance (private as well as public), the city with the strongest international linkages, and the place to which the most ambitious young people come to launch their careers. Crucially, it is not only by far the largest of the British regions (with three times the population of those in the next rank) but also the most diverse in terms of trades, skills and cultures. Size and success have, however, made London the most expensive city in which to live and operate, requiring both an emphasis on quality-based competition, and a continual process of concentration on those functions in which it has the greatest advantage.

As a result of continuing decentralisation of both people and jobs since the Second World War, and the emergence of new high-tech and business centres beyond the Green Belt, the effective London region in economic and labour market terms now stretches a long way beyond the border of Greater London (i.e. the area administered by the Greater London Authority (GLA), Mayor and associated agencies). Some core sectors of the London economy remain, notably wholesale, internationally-oriented financial services strongly concentrated within central parts of this region. But other advanced functions serving national and international markets also operate from centres outside Greater London almost as if they were in the core, and these now contribute quite substantially to the economic assets on which businesses (and workers) across the region can draw. It is increasingly important then to see developments in the Greater London economy, which is the primary focus of this report, in relation to those across a wider region – whether just in terms of the immediate 'metropolitan region' (which adds to the GLA Outer Metropolitan Area – the OMA – extending out to Reading, Gatwick, Stevenage and Southend) or the wider Greater South East (or GSE, which adds the whole of the adjoining Eastern and South Eastern government office regions).

The Greater London economy is generally treated here as a single functional unit, with spatial variations only being discussed when they help to clarify the specific

types of activity or processes that are involved. Since the special topic in this year's report is the Outer London economy, some more geographic detail on the roles and performance of particular sub-regions within London and neighbouring parts of the metropolitan region can be found in chapter 6.

The remainder of this chapter presents some key indicators highlighting distinctive aspects of the structure of and changes in the post-1980s London economy. It then looks in more detail at major trends, first in the productive economy (in output, employment and earnings), and then in London's population. Chapter 3 takes the analysis of the productive economy a stage further, looking at questions about competitive performance on a sectoral basis, while Chapter 4 focuses on the links between the economy and the economic welfare of London's population, particularly through the functioning of its housing and labour markets

2.2 Headline Indicators

For an overview of key aspects of change in the London economy since the early 1980s, highlighting the scale of change and performance relative to the UK as a whole, together with some important contrasts between different aspects and outcomes, Table 2.1 presents a set of headline indicators. Together these point toward the major issues and processes which will be more closely analysed in the remainder of this chapter and the two which follow.

Table 2.1 London's Changing Place in the UK Economy 1981-2008

Indicator	1981		2008		% change p.a.	
	000s	% of UK	000s	% of UK	Numbers	Relative to UK
Population	6,805	12.1	7,620	12.4	0.4%	0.1%
of which working age	4,325	12.8	(5,095)	13.7	0.7%	0.3%
Households	2,634	14.2	(3,175)	14.2	0.7%	0.0%
Employment	3,315	14.1	4,282	14.6	0.9%	0.1%
of which manufacturing	649	10.2	304	8.7	-2.8%	-0.6%
Services	2,439	17.8	3,623	16.0	1.5%	-0.4%
Graduates	462	14.9	1,517	21.8	4.5%	1.4%
Gross Value-Added	£85.87	18.5	£250.73	20.6	6.1%	0.6%
Housing Stock	2,676	12.5	3,192	12.1	0.7%	0.1%
	Averages	**Relative to UK (=100)**	**Averages**	**Relative to UK (=100)**	**Averages**	**Relative to UK (difference)**
Weekly Earnings	£145	117	£765	133	6.4%	0.5%
Unemployment Rate	7.8%	88	7.1%	120	-0.3%	1.2%
Employment Rate	74.9%	105	70.4%	95	-0.2%	-0.4%
House Prices	£30,800	127	£351,500	154	9.4%	0.7%

Notes/Sources: 1. Population data are mid-year estimates;
2. Household data are estimates by DCLG based on mid-year population;
3. Employment data are from the 1981 Census and the 2008 Labour Force Survey (LFS) and relate to those working in London;
4. GVA data are workplace-based and in current basic prices. Latest data relate to 2007 and earliest to 1989;
5. Data on graduates relate to employed London residents. !981 data (from the Census) include degrees and vocational qualifications, 2008 data (from LFS) are for degree-level and equivalent qualifications;
6. Unemployment rates and employment rates are from the 1981 Census and the 2008 Annual Population Survey, and relate to the working-age population
7. Average earnings are from the New Earnings Survey/ASHE and relate to full-time workers on adult rates by workplace;
8. House prices are averages for sales of all types of dwellings sold with a mortgage, from DCLG/CML series;
9. Housing stock data are from 1981 Census and DCLG, latest data are for 2007;
10. The relative change measure is the difference between London and UK change rates.

These indicators show that:

- London's population and employment both increased over this quarter century, at rates slightly above the national average – in contrast to trends in the previous quarter century
- Population growth has been concentrated within the working-age group, where the increase is well above the national average – skewing London's population structure more clearly towards this age group.

- The number of households grew at the same rate as the rest of the country while population grew faster, suggesting increased housing-market pressure.
- London's share of employment (by workplace) is even higher than its share of the working-age population, reflecting net inward commuting.
- Over this period employment grew faster than the working-age population, but London's share of employment did not grow in line with its share of the working-age population.
- Net growth in employment was the result of gains in service employment coming to outweigh the scale of continuing job losses in London manufacturing. In each sector, employment trends were actually more favourable elsewhere in the country. London's net change became more positive than in other conurbations simply because its economy was now biased toward (expanding) services rather than (declining) manufacturing activities.
- Gross value added (GVA) grew faster than in the rest of the country, primarily because productivity in London increased more rapidly, rather than through significantly faster growth in employment;
- This productivity growth was assisted by rapid growth in the proportion of graduates in London's working population. This was faster than in the rest of the country, and reinforced London's dominance as a centre of graduate employment.
- Earnings rose faster than in the country as a whole, greatly increasing the overall London earnings premium. In part at least this reflected faster upgrading of London jobs and skills, not necessarily better relative pay for given levels of human capital.
- Despite fluctuations during the period, London unemployment rates (like those in the UK as a whole) were lower in 2008 than in 1981, though employment rates have not increased. Despite London's stronger growth performance, trends in both unemployment and employment rates were less favourable than for the UK as a whole. Rates of worklessness for the GLA area were well above the national average at the end of the period.
- Growth in the housing stock did not keep pace with the growth in households and was slower than in the rest of the country. As a result demand pressures in the London housing market increased significantly.
- House prices in London grew more rapidly than in the rest of the country and were more volatile. This helped those already well-housed in London but worsened access for new entrants.

Together these numbers suggest a city-regional economy which was performing strongly in aggregate terms, reinforcing its strengths in activities with expanding demand, and as a centre for graduate employment in service jobs. Relative to the rest of the UK, London's faster economic growth was due largely to productivity increases rather than extensive population or employment growth. This success had not, however, ensured employment for all, and was accompanied by growing pressures on housing and rising costs of living, which absorbed a significant part of earnings gains.

2.3 Structural characteristics of the London economy

The 21st-century London economy is distinguished by the scale of activity within the city-region, the predominance of high-level service activities of many kinds,

including some with global horizons, the stock of human capital, and the high levels of productivity and earnings achieved by its businesses and workers.

Table 2.2: London and national sectoral structures compared, 2009

Industrial Sectors	Workers in London (FTE)	Sectoral share of London total	Sectoral Share in Area as Ratio of that for UK		
			London	Other conurbations	Rest of GSE
Manufacturing	141.3	3.8%	0.35	1.09	0.94
Construction	316.0	8.4%	0.90	1.00	1.03
Wholesale and Retail Distribution	362.7	9.6%	0.73	1.01	1.06
Transport and storage	258.6	6.9%	1.21	1.02	1.01
Accommodation and Food Services	140.6	3.7%	0.94	0.86	0.98
Information and Communication	259.9	6.9%	1.79	0.75	1.27
Financial and Insurance Activities	362.7	9.6%	2.16	0.91	0.85
Real Estate	50.0	1.3%	1.42	0.86	1.20
Professional, scientific and technical activities	411.5	10.9%	1.68	0.85	1.08
Administrative and Support Services	182.7	4.9%	1.11	1.04	1.06
Public Administration and defence	301.8	8.0%	1.12	1.07	0.87
Education	322.1	8.6%	0.92	1.07	1.03
Health	369.6	9.8%	0.80	1.13	0.92
Arts, entertainment and Recreation	119.9	3.2%	1.35	0.97	0.94
Membership/extraterritorial organisations and other personal/domestic services	127.2	3.4%	1.17	0.96	1.06
TOTAL	3761.5	100.0%	1.0	1.0	1.0

Source: Labour Force Survey first quarter 2009.
Notes: 1. the count of workers includes all employed and self-employed classified by the location and sector of their main job; 2. Full-time equivalent (FTE) numbers treat two part-timers as equivalent to one full-timer.

The pattern of sectoral specialisation in London compared with the national economy as a whole can be seen from the breakdown of employment in the first quarter of 2009, using a new version of the Standard Industrial Classification (SIC) with a clearer breakdown of advanced service activities[1]. Table 2.2 gives the

[1] This 2007 SIC also makes a more realistic distinction between manufacturing and service activities (e.g. by recognising all forms of publishing as services). This has a particular effect on the measured size of London's manufacturing sector. This new classification cannot yet be applied either to measures of change over time, or at district level. Other tables in this report (other than Table 6.1, which provides a

percentage of London's workforce employed in each industrial sector, and compares these percentages to the figures for the UK as a whole, other conurbations and the rest of the South East outside London.

Probably the most striking feature of the comparison is the very low current representation of manufacturing within the London economy. The sector accounts for 4% of FTE (full-time equivalent) jobs, just one third of the national proportion. By contrast, both the other conurbations as a group, and the rest of the Greater South East, have quite average shares of manufacturing jobs (i.e. with ratios close to 1.0).

There is a set of service activities that also seem to be somewhat under-represented in London, though not in the other conurbations, nor in the rest of the GSE. It includes distribution, education, health, construction and even accommodation/catering, despite London's significant tourist industry. What these services have in common is that they largely serve the needs of local residents. They account for a smaller proportion of London jobs only because a substantial minority of London workers (19% in the most recent LFS) live outside the GLA area and satisfy most of their service requirements there. Transport services are not part of this group, and are relatively heavily represented in London for two reasons: one is the continuing dominance of Heathrow as an international hub; the second is that London also has a somewhat larger share of rail and bus transport than its share of the population would imply, because the modal split in London is less heavily skewed toward private motoring.

Most other service activities are clearly proportionately stronger as sources of employment in London than elsewhere in the UK. Financial services are the most striking example, with London having double the national share of jobs in this sector. But the information and communication group (including publishing of all kinds, broadcasting, films, telecoms and IT) and professional/scientific and technical activities (including law, accounting, advertising, head offices, consultancy of all kinds, and research/design) are almost as heavily concentrated in London (and of comparable scale). These three sectors, together with the arts, demonstrate the distinctive strength of London's knowledge economy. At a finer level of disaggregation, the one significantly under-represented element is scientific research/development – while the share of higher education jobs in London is only average.

Conspicuously, these knowledge economy activities are not nearly so strongly represented in any of the other conurbations, whose share of such jobs is actually below the national average. In fact, both information/communication (particularly) and professional/technical services account for a substantially larger share of jobs in the outer parts of the Greater South East than they do in the other major cities. By contrast the more routine administrative/support services and public administration – neither of which is especially over-represented in London – are almost as important in the other conurbations. What this suggests is that there is a rather clear qualitative difference between London and the other conurbations in the level of service activities undertaken – a rather greater difference than is evident between London and the rest of the Greater South East.

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similar analysis for Outer/Inner London) still use the 1992 SIC, with its more inclusive definition of manufacturing.

Table 2.3: London and national occupational structures compared, 2009

Occupational Group	Workers in London (FTE)	Occupational share of London total	Occupational Share in Area as Ratio of that for UK		
			London	Other conurbations	Rest of GSE
Higher managerial and professional	904.9	24.0%	1.52	0.91	1.03
Lower managerial and professional	1259.0	33.4%	1.17	0.99	1.00
Intermediate occupations	407.9	10.8%	1.00	1.16	0.95
Small employers and own-account workers	336.7	8.9%	0.90	0.79	1.07
Lower supervisory and technical	234.1	6.2%	0.61	1.04	0.99
Semi-routine occupations	313.0	8.3%	0.68	1.09	0.96
Routine occupations	206.3	5.5%	0.59	1.10	0.94
Unclassified	103.5	2.7%	0.95	0.88	1.10
Total	3765.5	100.0%	1.00	1.00	1.00

Source: Labour Force Survey, first quarter, 2009.
Notes: 1. the count of workers includes all employed and self-employed classified by the location and socio-economic class of their main job; 2. Full-time equivalent (FTE) numbers treat two part-timers as equivalent to one full-timer.

This is consistent with comparisons of the areas' patterns of occupational specialisation. In terms of broad socio-economic classes, the London job structure is skewed toward higher managerial and professional jobs and away from all lower-level supervisory, technical, routine or semi-routine jobs (Table 2.3). This distribution is partly a reflection of the city's pattern of sectoral specialisation, but it is also strongly evident *within* many sectors. Indeed, two-thirds of the bias toward higher professional/managerial jobs in London remains even after controlling for industrial composition at a disaggregated level. Within each industry, London firms tend to specialise in more knowledge-intensive products/market niches. In addition, the larger firms tend to export more routine kinds of work, not requiring either face-to-face contact or London's specialised skills base, to cheaper locations either within the UK or increasingly to offshore locations (Gordon et al., 2005).

A third distinction between the London economy and that of other parts of the UK is that they target somewhat different spatial markets. There is now an accumulation

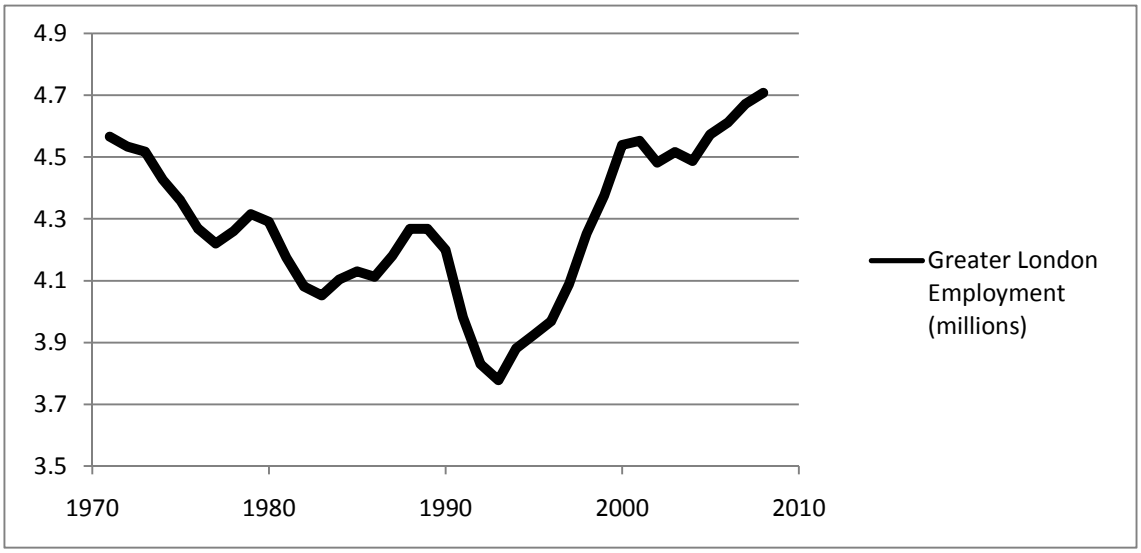
of data on the spatial distribution of markets for London firms, but similar figures for other regions are less readily available. The one recent national source (the 2008 National Business Survey, undertaken for the RDAs collectively, and including about 500 firms in London) suggests that, after allowing for differences in size and sector, London firms exported a larger proportion of their output than those in any other mainland region. More precise evidence from the 2007 London Annual Business Survey (LABS), with some 4000 respondents, indicated however that the achieved level of exports from London businesses was rather more modest than this comparison might suggest, averaging 10% on an employment-weighted basis.

2.4 Long-term trends and changes in the London economy

2.4.1 The 1980s turnaround

The first half of the 1980s marked a point of turnaround for the London economy, with trends in employment, population and earnings all shifting upwards, both absolutely and relative to the national economy – if not all actually at the same time. Before about 1984, the trend in Greater London employment had been consistently downwards since at least 1971 (Figure 2.1 below), and in fact for a decade previously – reflecting the combined impacts of rapid deindustrialisation and the spreading of the London economy across an increasingly wide metropolitan region. This downward trend was replaced in the early 1990s by great volatility, around an upward trend of uncertain gradient.

Figure 2.1: London employment trends 1971-2008

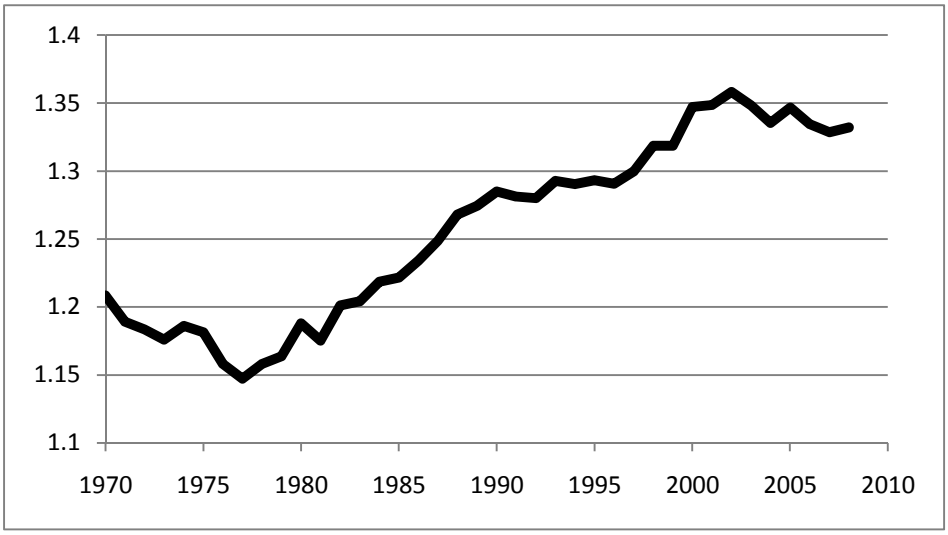


Source: Experian/GLA Economics and ONS Civil Employment estimates (NOMIS).
Note: Job numbers reported here are significantly higher than in Table 2.1, both because the annual counts are of jobs not workers and because of continuing inconsistencies between the procedures used for these and the benchmarks provided by Census and Labour Force Surveys.

Greater London's population had been declining for even longer (since 1939) as a consequence of a similar process of decentralisation driven by demand for lower densities of occupation. As will be discussed in the next section, this downward trend, for the city though not the wider region, continued until about 1987, after which the population stabilised, and more recently has grown strongly.

During the earlier years of contraction in Greater London's numbers, both of residents and jobs, the persistence of relatively high earnings levels in London provided some evidence of the underlying health of the city's economy, though the margin of advantage did not seem to be increasing. From about 1979 it moved sharply upwards however; the gap doubled over the next decade, and another surge followed at the end of the 1990s (see Figure 2,2).

Figure 2.2: London earnings for full-time workers as ratio of the GB average 1971-2008



Source: New Earnings Survey/Annual Survey of Hours and Earnings

Each of these shifts had its own particular causes, but together they seemed to reflect the transition to a new era of intensified competitiveness and internationalisation, in which London's natural sources of competitive advantage were being revalued. A more prosaic explanation (applicable also the slightly earlier turnaround in the New York Economy; Fainstein et al., 1992) was that the mid-1980s were simply the point at which the impact of exponential decline in the city's manufacturing employment base was eventually overwhelmed by rapid growth in its financial/business service sector (see Figure 2.3). Despite the current economic crisis, both of these considerations - the form of economic competition and uneven sectoral growth - still apply, making an understanding of the trends of this era a crucial starting point for thinking about London's prospects beyond the current downturn.

2.4.2 Long run trends since the early 1980s

The headline indicators presented at the start of this chapter (Table 2.1) included a measure of aggregate employment growth for the period 1981 to 2008, alongside one for output (GVA) change between 1989 and 2007. The inconsistent dates reflect the availability of reliable data[2]. A reasonable proxy measure for output changes over the whole period can, however, be generated by using employment

[2] For employment, where there have been recurring issues with employer-based surveys about the inclusion with some London headquarters of employment in other company branches (see e.g. ONS, 2008b), we prefer measures based on population/worker surveys (i.e. the Population Census and Labour Force Survey). For output, while data have in the past been published for years before 1989, these have now been discredited (Cameron and Muellbauer, 2000)

and earnings data to calculate total remuneration of London workers, since this always represents 60-65 % of overall value added. Results are presented in Table 2.4.

Table 2.4: Estimated remuneration of workers: London and Great Britain 1981 and 2008

	1981	2008	% change p.a.
LONDON			
FTE numbers in employment (000s)	3,098	£3,875	0.8%
Mean weekly earnings (Full-time)	£145	£765	6.4%
Total annual earnings (current prices)	£23,359 m.	£154,147.5 m	7.2%
Total annual earnings (2007 prices)	£67,107 m.	£154,147.5 m	3.1%
GREAT BRITAIN			
FTE numbers in employment (000s)	21,062	24,947	0.6%
Mean weekly earnings (Full-time)	£124	£577	5.9%
Total annual earnings (current prices)	£135,820 m.	£748,250 m.	6.4%
Total annual earnings (2007 prices)	£390.195 m.	£748,250 m.	2.4%

Sources: 1981 Census of Population; Labour Force Survey, 2008 composite; New Earnings Survey; ONS Retail Price Index for the UK
Note: FTE is full-time equivalent.

These confirm the impression given by the headline indicators. Over the period from 1981 to 2008, total annual earnings of people working in London are estimated to have increased by 7.2% p.a. on a current price basis. Converting to a constant-price basis using the national GDP deflator (which may reasonably be applied on a regional basis to production costs, though not to living costs), this equates to a real growth rate of 3.1% p.a. Since full-time equivalent employment (including the self-employed) in London has been growing by 0.8% p.a., this suggests an annual rate of increase in output per head (a crude measure of labour productivity) of 2.3%. Comparing these with equivalent national figures, it seems that the London economy, as represented by its wage bill, grew substantially faster than the UK economy as a whole over this period, by a margin of some 0.7% p.a. Of this differential, 0.2% reflects a faster rate of growth in FTE employment and 0.5% a more rapid growth in the real wage bill, i.e. presumably in labour productivity. London's relatively strong aggregate performance over this extended period thus predominantly reflects a faster rate of productivity growth (which represents about 70% of the difference), and only secondarily a slightly faster growth in the volume of labour inputs.

Some part of this faster growth in FTE earnings and output per head may well reflect an enhancement of London's competitive position in an era when flexibility,

agglomeration economies, a rich knowledge base and international connectedness are all believed to have become more important. But part, at least, undoubtedly reflects a shift in the mix of London's labour inputs toward more highly educated (and valuable) types of worker. As the headline indicators showed, the graduate intensity of the London workforce increased rapidly over this period, by about 3.5% p.a. compared with 2.2% nationally. In simpler terms, London's share of the graduate workforce, which had been only 5% or so larger than its share of the overall workforce in 1981, was almost 50% greater by 2008.

On one analysis, this shift in the composition of the workforce, at a time when the graduate pay differential was increasing substantially, could entirely account for the faster long run increase of earnings in London (Duranton and Monastiriotis, 2002). In any case, it is certainly an important factor. One simple story about London's resurgence during this period says it was due to sectoral shifts in the economy toward the advanced business service sectors in which London had established strength, while a competing explanation attributes it to the burgeoning of graduate jobs in London, and the city's capacity to generate well qualified workforce or attract one from elsewhere to fill them.

2.4.3 Booms, busts and other sources of fluctuation

Except by taking this very long term view, and treating the last quarter century as a single coherent period of continuing relevance to the present day, it is very hard to say anything precise about the recent trajectory of the London economy because it has been so volatile over this era. Remarkably, the evidence of employment changes shows that up to the early 1980s London was the most stable of the UK regional economies. Since then the reverse has been the case, and Figure 2.1 shows a sequence of large shifts from which it is rather hard to separate trend and cyclical elements.

The first 20 years of this period saw one-and-a-half economic cycles of conventional form but greater than normal amplitude, both nationally and more particularly in London. The recession of the early 1980s had its strongest effects in more industrial regions, but the major boom that followed from the mid-1980s was more focused on service activities and on London. Similarly, the 'bust' of the early 1990s had its sharpest effect across the London region. Although this recession, like its predecessor, was concentrated on services and in London, the recovery was more controlled and prolonged – but by the end of the decade boom conditions had returned to the region.

The late 1990s boom was not followed by a 'bust' – except on the stock market. Rather, growth in activity came back into line with the long-run rate of capacity growth, sustaining expansion of both the London and national economies through to late 2007 at least, when the credit crunch started to make an impact. After the region's volatile performance in the previous 20 years, when underlying trends were hard to discern, the years from 2000 onwards came to look like a sustainable growth path for London – until the delayed bust arrived with the sub-prime crisis in 2007.

Apart from the UK macro economy, some other identifiable factors played a role in these fluctuations. These included the vigorous deregulation of both product and labour markets during the 1980s, most notably in the form of the 1986 'Big Bang' for City financial services. International developments, including the general progress

of globalisation, have also contributed supply-side shocks via upsurges in immigration, particular the influx of asylum-seekers in the years around 2000.

On a more structural level the London economy seems to have become particularly susceptible to expectational, or speculative, cycles. These expectations were triggered by various factors: in the mid-1980s by the potential impacts of financial globalisation; in the late 1990s by the 'dot.com' bubble; and at various points by the value of housing and its implications for the credit-financing of consumption. These forces appear to have been particularly concentrated in the London region, because of the leading edge nature of its activities, and the subjective character of many of its key human, institutional and intellectual assets.

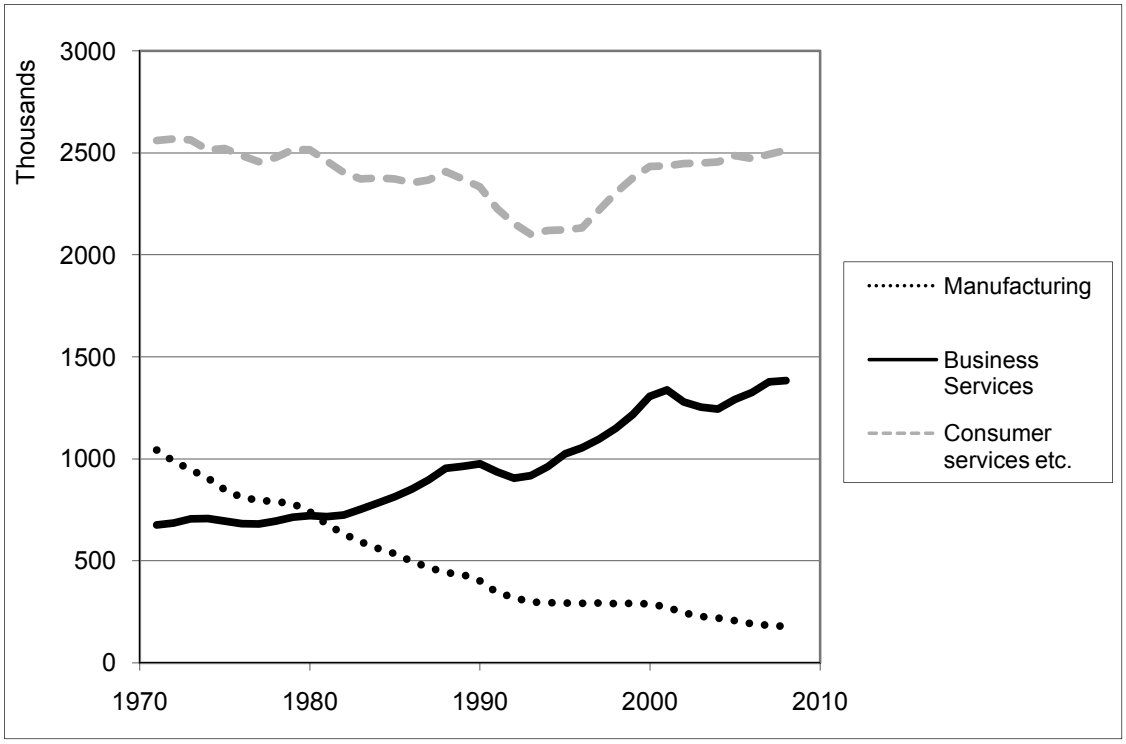
The outcomes of these processes are not very orderly, but some significant patterns can be identified, firstly by distinguishing three broad sectoral components of the London economy, and secondly by relating rates of change in the London and national economies.

In terms of disaggregation, the London economy can be broken down simply into two externally oriented sectors – an old goods-based economy, represented by manufacturing, and a new advanced service economy, represented by financial/business services. In addition, there is a more locally-oriented consumer service economy, which depends on the incomes generated by the first two. Over the period as a whole, changes in these can only be tracked in employment terms, using firm-based data from the Census of Employment and Annual Business Inquiry, which are subject to significant uncertainties in particular sub-periods[3].

The major patterns of sectoral change are clear enough, however (see Figure 2.3). The fairly constant proportionate rate of decline of manufacturing, however, yields smaller absolute reductions over time, as the residue of jobs vulnerable to such losses shrinks. Business services, on the other hand, show a continuous upward trend, more subject to cyclical fluctuations. In this case the trend is more or less linear, i.e. it is the numeric (rather than proportional) rate of growth which remains constant, with a straight line trend and no evident tendency to acceleration over time. The two trends crossed in about 1981, when business services took over from manufacturing as the lead sector in the capital's economy.

[3] When they display clear inconsistencies with changes indicated by population-based surveys, that despite larger sampling errors are less vulnerable to particularly biases/inconsistencies (e.g. in relation to the 'headquarters effect') – and are recommended by ONS for measures of regional employment.

Figure 2.3: Employment trends in three sectors of London activity



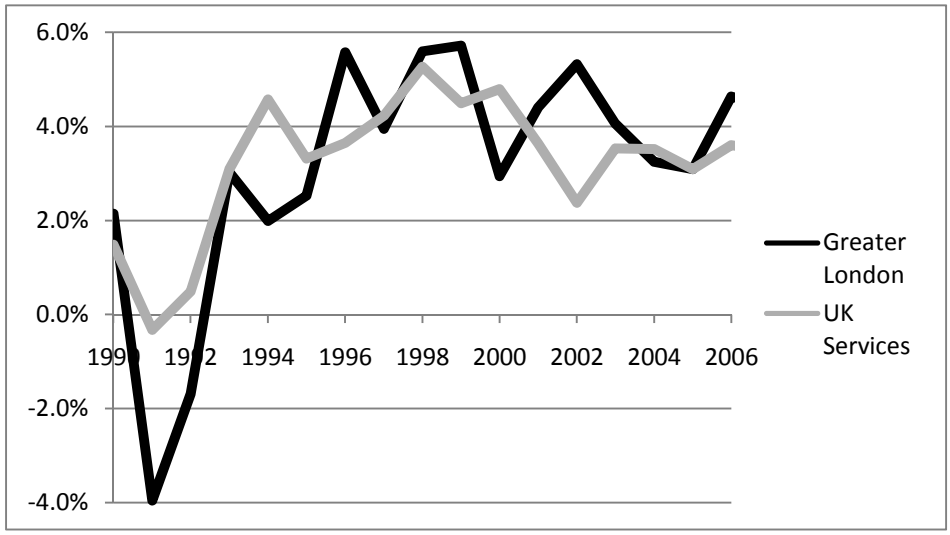
Source: New Earnings Survey/Annual Survey of Hours and Earnings
Note: Business services include financial intermediation

The picture for the residual 'consumer service' group is more confusing. Until the early 1990s it exhibited a slow downward trend with cyclical fluctuations, both of which reflect expected changes in consumer demand within the region. Thereafter it has shown sharper changes, both down and up. The downturn in the early 1990s recession was sharper than anything before. This could be attributed to the character of that particular recession, which disproportionately affected service activities, credit-financed consumption and South East England. A gradual recovery was, however, suddenly followed in the late 1990s by a lurching upturn unparalleled by the other two externally-oriented sectors. The scale of this upturn may very well be exaggerated in this data source. But evidence from other sources on trends in low-paid jobs suggests that consumer service employment may have been given a particular boost in the late 1990s by an upsurge of immigration from low wage economies (Gordon and Kaplanis, 2009). Thereafter, as the macro-economy settled down to a more stable growth path, this sector displayed modest but steady growth, supported by continuing immigration and growth in public spending.

The growth of GVA in services in London and the UK as a whole is shown in Figure 2.4. This uses income-based measures of GVA, which are more robust than the firm-based employment series. Analysis of these data highlights two facts. The first is that London GVA growth rates are rather strongly related to growth in the wider UK economy – though unsurprisingly they reflect specifically service-sector output trends rather than those in goods production. In fact average growth rates in London appear to be close to those in UK services, and hence about 0.5% p.a. faster than in the overall UK economy. This piece of evidence (and others to be discussed in the next two chapters) suggests that, contrary to some claims that London became

disconnected from the rest of the UK during this period, the city remains strongly integrated with the national economy and strongly affected by its fluctuations.

Figure 2.4: GVA growth rates London in relation to UK services 1989-2007



Source: ONS

The second point, evident from the figure but reinforced by statistical analyses, is that London output fluctuates more than proportionately with swings in the national service economy. On average it appears that a change of 1% in UK service GVA is associated with a change in London GVA that is about 60% larger. Further analysis indicates that this relationship also applies to employment trends over a longer period (i.e., a 1% change in national GVA could be expected to lead to a change of about 1.6% in London employment).

This finding highlights the dangers of trying to assess the underlying trajectory of the London economy from evidence over a few recent years, except in rare periods when the national economy is growing at its 'sustainable' long-run rate of around 2.5 per cent p.a. During periods when UK growth is above trend (as in the late 1990s) London growth is likely to be even further above its trend, which can lead to dangerously over-optimistic views of the likely continued rate of expansion, implying substantial increases in jobs as well as output.

2.5 Population structure and trends

Population is a very important influence on several aspects of London's economic performance and its role in the UK economy. Trends in population and household numbers directly affect the demand for local services and for housing – and thus may indirectly affect the cost of living for all residents as well as the pattern of employment. Working age population change and composition is also a key influence on labour supply, in both quantitative and qualitative terms. In London's case, all of these effects (except perhaps the demand for local services) are qualified by the fact that the GLA area is an open economy, particularly in housing and labour market terms. On the one hand, workers to fill jobs in the city do not have to live in Greater London, nor need houses to accommodate them be built inside that area. On the other hand, pressure from population growth on housing

capacity can exert effects on house prices across the metropolitan region as a whole, even if that growth occurs outside Greater London itself.

These issues are to be followed up in chapter 4 on housing and labour market dynamics. But first we need to consider the structural characteristics of London's population, and the processes through which current population growth has been achieved.

For half a century, from 1939 until the late 1980s, London's population declined. It fell by about 1% p.a., principally through net out-migration from the city to other parts of southeast England. This process was part of a much longer-term decentralisation from the established urban core, reflecting individuals' demand for more residential space as their incomes increased.

The impact of this out-migration became particularly evident in this period because of the imposition of the London Green Belt, which served less to slow decentralisation than to push it further out, well beyond the boundaries of Greater London. During this time, despite years of strong Commonwealth immigration, the balance of international migration was as likely to be negative as positive, and net gains of younger people from northern regions were dwarfed by the outflow of families to the Greater South East.

The past 20 years have seen a turnaround in population trends, with first a halt to population losses, and then over the past decade strong population growth. The essential factor driving this growth has been sustained and increasing gains from international migration, though this and earlier waves of immigration have had the knock-on effect of increasing the birth rate, as larger numbers of young people come to live in the city.

The impact on birth rates tends to be felt about 10 years after immigrants' arrival in London, though it takes another 15-20 years before this increased fertility has major economic impacts on the housing and labour markets. While natural increase is now a major element in London's population growth, its main effects on the size of the working-age population are still to come. In terms of overall population growth, however, its contribution is already as important as that of net migration, since net gains from overseas migration are substantially offset by net outward migration to other parts of the country (Table 2.5).

Table 2.5: Sources of London population growth 2001-8

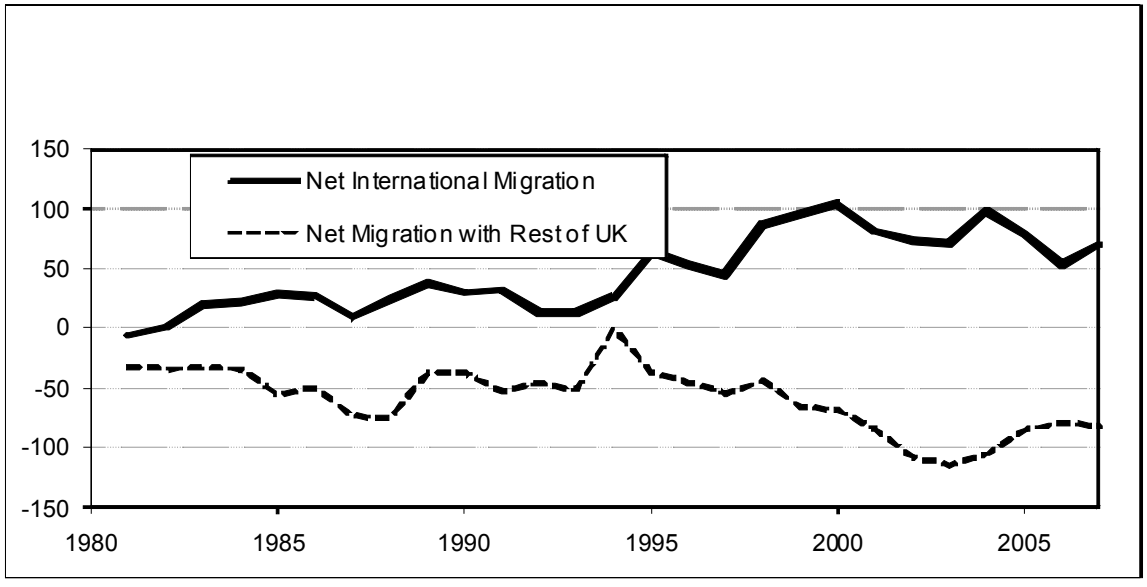
	Numbers (000s)	% of UK
Population mid-2001	7,322	12.4
Births	808	16.1
Deaths	377	7.9
Natural change (Births-Deaths)	431	47.6
Net migration from rest of UK	-646	..
Net migration from abroad	507	39.7
of which: asylum seekers	47	23.4
Total change	298	14.1
Population mid-2008	7620	12.4

Source: Office of National Statistics
Note: Total change includes small changes in institutional populations and balancing adjustments.

This net outflow reflects a continuing process of de-concentration *within* the Greater South East. In 2007-8, when net emigration from London to the rest of the UK amounted to 80,000 people, the Labour Force Survey shows all the net losses occurring in exchanges with London's two neighbouring regions (Eastern and Southern). Flows with regions further afield were more or less in balance, with a small net gain to London from them.

The impact of migration on the north-south population balance within the UK is now essentially a matter of where international flows are concentrated. The 2001 Census showed that London itself, which is particularly attractive to young migrants, had a net inflow of working-age movers from outside the Greater South East. But this trend is dwarfed by the numbers coming from overseas, with net gains in this age group that were about seven times larger in 2000-1.

Figure 2.5: London's migration balances, international and within UK, 1981-2007



Source: ONS 2008 revisions to international migration series.

The two sets of flows are not entirely independent. Rather there seems to be an association over the past 15-20 years between increasing levels of overseas migration into London and increasing net losses to the rest of the UK (Figure 2.5).

One study examining this relation across all the southern regions suggests there is a 40-50% displacement effect, i.e. that for every 1000 net overseas migrants received in a region, there might be an off-setting reduction of 400-500 in the balance of flows to/from other regions (Hatton and Tani, 2005). The London data on their own suggest an even stronger effect, implying that the overall impact of overseas immigration on London population levels might be less than would initially be expected. The most likely mechanism through which this displacement would occur is the housing market, and this issue will be pursued further within chapter 4.

In addition to its quantitative effects on London's labour supply and housing demand, migration into the city has important qualitative implications for the labour force, which is both younger and has a much higher level of human capital than would otherwise be the case. Migration is discussed further in the next two chapters, but the strong bias of inward migration (especially from the UK but also from overseas) towards those with higher levels of education is the reason why London has developed such a large graduate population over recent decades.

2.6 Summary

Since the early 1980s a number of developments have substantially transformed economic trends in London, and the relation between its position and that of other parts of the UK. Some of these developments represent the continuation of old trends to a point where they exert a different kind of effect. These include the processes of structural change which have, on the one hand, reduced the scale of manufacturing activity to a point where its contraction ceased to have any significant impact on overall employment change, and on the other bolstered business services and graduate employment to the point where these took over as London's characteristic activities. They also include the processes of spatial expansion and decentralisation, which have continued to redefine the effective scale of London's economic region, despite the impacts of high rise office development, gentrification and immigration on employment and population levels in central areas.

In addition, however, there have clearly been qualitative shifts in the economic environment, involving a revaluation of the traditional assets of London, as a large, diverse and internationally-oriented agglomeration, with flexible institutions, a strong attraction to able young workers and established strengths in advanced producer and consumer services.

One outcome of these developments has been a turnaround in population and employment trends. Both are now growing within Greater London, as well as across the wider region. But the strongest growth has been in earnings and productivity - at least partly because of inflows of highly-skilled labour, both from the rest of the UK and overseas. Employment growth has been consistently strong in those economic sectors where London specialises, but less consistent in other sectors where unusually strong national economic growth has been absent. Population growth has tended to depend on special circumstances, notably the push factors encouraging increasingly large numbers of migrants to come to London from poor countries.

The economic times have so far favoured London, and the city has adapted over the past quarter century in ways that reinforced its most positive economic

attributes, notably in relation to the attraction of a highly qualified workforce. Where this has left those in the local population whose capacities are less well adapted to the new economy, and how far such changes are responsible for the concentration of worklessness in the capital, are important questions which need to be addressed in the following chapters.

How these trends and strengths have stood up in the face of financial debacles of the past two years and the onset of recession are issues to be addressed in chapter 5. The longer term issue, however, is whether the factors and sectors (including financial services) which have proved to be substantial assets over the past 25 years can be expected to remain so, in the context of structural change and new regulatory regimes that may emerge as the international economy recovers. These are issues to which we turn in the final chapter.

Chapter 3 London's Competitive Position

3.1 Introduction

London's competitive position is a complex one with many different aspects. For some of its internationally oriented specialisms – notably in various kinds of financial services – it is one of a very small number of truly global centres worldwide. In many of these specialisms, there are also second and third order centres positioning themselves to take over elements of the London's business on a more routinised basis, at lower cost, and/or in ways tailored more closely to regionally-specific requirements and networks. In relation to its most obvious opposite-number in terms of global business in this field, i.e. New York, London obviously also has some strong common interests, through shared modes of operation (and specific firms in common), which are under challenge from centres with interest in different types of regulatory regime.

London's position within the UK economy (which is the focus of this report) partly depends on its unique involvement in such specialised international activities, and how it fares in external competition for these. But, there are further dimensions to its relation with other British cities/regions, which also have both competitive and complementary aspects. In terms of sheer scale, depth and breadth of specialisation, and strength of international connections, London seems (as the previous chapter has suggested) to be in a league of its own. For any specific area of specialism the leading London firms face relatively few rivals elsewhere in the UK, though there are often some, and the balance of advantage relative to these is not fixed. The division of labour between London and other centres is, however, an evolving one, reflecting shifting patterns of comparative and competitive advantage.

One indicator of the broad direction of change has been the growing focus on graduate employment within the London workforce, which reflects not only the development of more sophisticated/knowledge-intensive products and processes by London firms, but also an erosion of its advantage as a location for more routine, price-sensitive activities. Fundamentally this is a natural and healthy development, but it involves competitive processes that are not entirely under the control of London businesses (still less of policy-makers), and ones that have positive outcomes for the city only so long as it can continually renew its qualitative competitive edge through innovating and marketing new/better products.

Another aspect to London's competitive position is its relation with the extended metropolitan region that surrounds it (the rest of the GSE as we have referred to it). The division of labour between the two has also evolved, with new forms of complementarity emerging, through processes of change with a competitive element to them. The long term impact of their closer integration has, however, been to increase substantially London's effective scale as a functioning economic unit, and the agglomeration economies that it can deploy.

3.2 London's Overall Competitive Position

London competes with other cities, in the UK and elsewhere in a number of fairly distinct markets, including those for inward investment, for prestige projects or policy

support, and for the attraction of desirable residents (Gordon et al., 2008l). Though these are often of high profile, great symbolic significance, and offer more scope for direct engagement by city leaders, the most important form of competition is clearly that in product markets, on the part of businesses based/operating from London.

In these terms, competitiveness is demonstrated through the capacity of firms – and some other agencies, such as universities – to sell their products in contested markets. There is no simple, single indicator of success in these terms, whether at the level of individual businesses/establishments or of the aggregate performance of sectors across the city. Three significant, partial indicators, however, are the achieved levels of growth, productivity and external sales – all subject to biases, but ones that tend to off-set each other. A particular example is the impact on big city businesses of tighter spatial and labour supply-constraints than apply elsewhere, which can be expected *both* to depress measures of extensive growth, and to boost levels of achieved productivity, relative to businesses of comparable competitiveness in smaller and less spatially constrained settlements.

3.2.1 Growth

As noted in the last chapter, London GVA grew more rapidly than that of the economy as a whole over the period (1989-2007) for which credible data on output are available, averaging 3.0% p.a. against 2.4% nationally in constant price terms[4]. Performance over this period was uneven, however. London lost ground relative to the rest of the UK throughout the years 1989-1995, suffering during the last recession and taking longer to recover from it. But it then bounced back with four extremely strong years, growing significantly faster than the national economy during the upswing and the 'dot.com' boom. In the years after 2001 when growth in the UK economy stayed closer to its sustainable rate, the gap declined, but in real terms London output appears to have increased by about 3.3% p.a. against 2.6% nationally.

Over the period as a whole, London's more rapid output growth stemmed very largely from the fact that it started off with a larger share of the more rapidly growing activities (financial and business services in particular) and less in the stagnant or contracting sectors (notably manufacturing). If superior competitive performance is indicated by faster growth than elsewhere within particular sectors, London displayed a rather small overall positive balance (contributing about 7% of the growth overall), with significantly faster growth in just two sectors (financial services and the cultural/entertainment-oriented 'other service' category). In proportionate terms the smaller hotels/catering sector also did relatively well. Both in this sector and in finance, London's better performance was very heavily concentrated in the years since 2000, and might reflect particular characteristics of this boom, more than superior long term competitiveness.

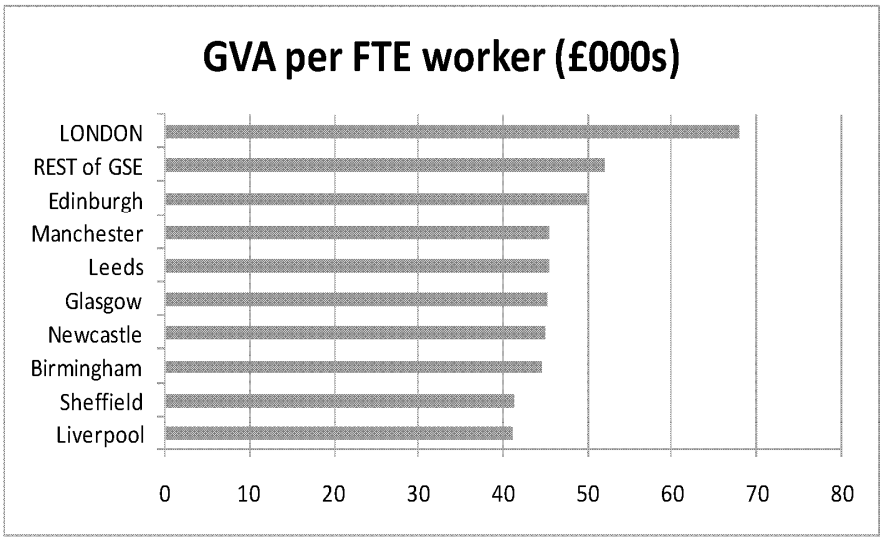
Other business services, which showed much the fastest(and largest) overall growth in output, actually grew only marginally faster in London than in other parts of the country. This is still better, however, than their relative performance in employment terms, reflecting a continuing tendency for lower value-added jobs to be squeezed out of London, either through real productivity gains or out-sourcing to cheaper locations.

[4] Assuming identical price trends for London and UK producers.

3.2.2 Productivity

On a simple output-value per worker (or worker hour) criterion, London stands out, not only as well above the UK average, but also clearly ahead of every other major city-region (Figure 3.1). Indeed in terms of GVA per FTE worker, it is notable that its nearest challenger is actually the rest of the GSE (within London's extended economic region), rather than any other conurbation. Among these conurbations, it is significant that Edinburgh, the UK's second significant financial centre, capital of Scotland, and another major centre of graduate jobs, comes closest, rather than any of the major English cities.

Figure 3.1: Labour Productivity 2006: London versus other UK conurbations



Source: ONS Regional Accounts database.
Note: other conurbations/city-regions have been defined here in terms of NUTS2 areas.

As an indicator of competitiveness and business efficiency, this statistic needs to be treated with some caution, however. To a large extent it reflects London's specialisation in those activities which use large amounts of human capital, rather than simple units of labour. Moreover, measured 'productivity' levels in the city are likely to be a consequence (as well as a cause) of high pay. And, London's recorded GVA has clearly been boosted somewhat by treatment of wholesale finance's net dealing profits as rewards for a service to other sectors right across the UK (and deducted from their GVA).

In a city where factor costs are high, productivity levels depend a lot on securing higher prices through developing products with distinctive and market-leading qualities. These characteristics might be expected to be underpinned by much higher rates of *innovation*. However, this is less evident in practice than might be expected (Wilson, 2007). Some conventional indicators of innovative activity (in terms of patenting or R&D activity) are admittedly less sensitive to positive performance by service firms than in large scale/science-based manufacturing. But, even in terms of firms' own reports of the significance of new and improved products or services to their sales (as collected e.g. by the EU Community Innovation Surveys) London firms do not show up as strongly as might be expected. In the latest round of the CIS (relating to activity in 2002-4), the overall share of turnover in London associated with new or improved products was marginally below the UK

average (16% compared with 17%[5]). This disparity persists even when actual employment levels are used to re-weight the results (Table 3.1), or allowance is made for differences in sectoral structure. In fact, the Greater South East regions appear at the head of the table, but with the East of England apparently showing the strongest performance and London (at best) level with the South East.

Table 3.2: Proportion of Sales Accounted for by New or Improved Products- Re-weighted Regional Results

	Published REPI version	Re-weighted by Sectoral Employment	
		Regional weights	UK weights
East	40%	29%	29%
South East	18%	19%	18%
LONDON	16%	17%	18%
North West	16%	13%	13%
North East	11%	11%	12%
West Midlands	7%	12%	11%
East Midlands	15%	12%	11%
Scotland	15%	11%	11%
Yorkshire and The Humber	12%	10%	11%
South West	11%	10%	10%
Wales	17%	10%	9%
UK	17%	19%	19%

Source: Community Innovation Survey 2005 (data for 2002-4); column 1 from DBIS 2009, Table 14e; columns 2 and 3 re-weight sectoral results by shares of employment (ABI from NOMIS)

The only sectors in which London is identified as substantially more innovative than average are in 'other manufacturing' (principally publishing in London's case), transport/storage/communications (reflecting air transport activities) and retailing. In two important London sectors – hotels/restaurants and business services – the incidence of product innovation appeared to be well below the national average. Whereas in some of the less innovative regions many firms reported barriers to their aspirations to innovate, London was a case where more appeared to stand 'outside the innovation contest', due to some other source of market advantage (D'Este et al.,2008).

Where businesses are delivering more customised services, it may be that the conventional notion of innovation, in terms of 'new products' does less than justice to the responsiveness of London businesses to changing opportunities and the behaviour of rival firms. What the CIS refers to as 'wider innovation' - including corporate strategy and marketing – is more important in London, though except in relation to marketing expenditure not strikingly more than in other parts of the GSE. It may be that for firms where innovation is a distinct and independent function there

[5] According to results reported in DBIS (2009). These figures are about two thirds lower than those reported by Wilson (2007), and move London down from top position, because DBIS use as their base all firms (not only those with new products) and weight responses by employment. In our comparisons with other regions, we have further adjusted the summary DBIS results (weighting sectors by actual ABI employment) to reduce the impact of some aberrant observations, notably for business services in the East of England.

are fewer advantages to choosing costly locations within Greater London, in contrast to the position for those where upgrading of products and procedures is inseparable from service delivery/collaboration (Gordon and McCann, 2005)

In the London context, *entrepreneurship* might serve as a partial substitute for the kind of innovation captured by the CIS, through the genesis of firms whose initial product mix (while neither new nor improved) may be superior to those they displace. The proportion of the London population classed as engaged in entrepreneurial activity is not especially high, though this can be a very unselective indicator, counting many self-employed people not involved in especially dynamic entrepreneurial activity. Probably more significant is the fact that more Londoners have been reported as expecting to start a business within the next 3 years than in any other region (12.5% in 2008, compared with between 5.1% and 6.8% elsewhere)[6]. The actual rate of new business registration for VAT purposes has been similarly high (63% above the national p.c. average in 2007, and about 50% above that in the rest of the GSE). Survival rates of such businesses are in good times significantly lower than in any other region, which is indicative of healthy competitive pressure in a dynamic market, serving to raise product quality through selection rather than by spawning more new ones[7].

3.2.3 Exporting

Despite its reputation as an economy with a highly international orientation, London does not seem to have an exceptionally high proportion of sales to export markets. There are no official sources of overall data on regional trade (covering services as well as goods), and even the geographic attribution of visible trade is problematic. But data from several survey sources (reported in previous issues of this report[8]) suggest that the export share of sales by London firms has been around 12% , at or slightly below the national average. The simple reason why it is not higher is that, despite some catching up over the past 30 years, goods remain much more readily and widely traded than are most services, with an export intensity still about three times as great.

London is exceptional in that its service sector is almost as export-oriented as its goods sector, with a proportion of sales exported about half as large again as in any other region (Gordon et al., 2004), and double the national average in its specialist service activities.

The extreme case is 'City-type' wholesale financial services, where about half of all sales go abroad (Gordon et al., 2008). As this case suggests, however, where high levels of exporting are found, particularly among service activities, this is not simply an expression of superior competitiveness, developed via success in domestic markets. They also reflect a particular kind of product and marketing specialisation -

[6] Both indicators of entrepreneurship come from Global Entrepreneurship Monitor UK data published in DBERR (2009)

[7] These indicators also come from DBERR (2009). The latest survival rate data there are for 2002. In the mid-1990s, when demand was generally weaker, failure rates (over the first 3 years) were significantly lower, but comparable then with those in the north/Wales – reflecting generally weak demand (and unemployed people looking for a living) rather than selective competitive pressure.

[8] In particular, the 2004 report presents estimates derived from the 2001 English Employer Skills Survey, while the 2008 report compares London estimates based on LABS 2007 with UK input-output data (Gordon et al., 2004, 2008l)

notably among businesses offering 'global' expertise, but also among some foreign or migrant-owned businesses with ties to particular overseas markets.

3.2.4 The Role of Skills and Labour Supply

London's competitive strengths relative to those of other UK cities and regions have a number of roots, including first-mover and cultural/language advantage in a number of advanced service sectors, strong international links, and the sheer range of specialised suppliers and partners available within a large, diverse and competitively-oriented agglomeration. The one which has acquired a more conspicuous importance over the past quarter-century is, however, that of access to strong pools of skilled labour for specialist service roles which require highly qualified staff with access to state-of-the-art knowledge.

In London's case, the key and distinctive skills involve graduates with training in the social sciences, humanities or maths. Overall, the proportion of graduates in London jobs is about half as large again as in the country as a whole. For those from these disciplines it is double, with an even greater concentration among young workers. In fact, LFS data for the first quarter of 2009 indicates that 33% of all employed single honours graduates from these fields in the 25-39 age range in the UK actually work in London.

Clearly not all of these are products of London's own educational system. In fact, only 25% of graduate workers in London were born there, with 45% coming from the rest of the UK and 30% from overseas. From the perspective of other UK regions, especially in the north, this relationship is often depicted as one of 'brain drain', with human capital being created there but used to reinforce the economic dominance of London – and of 'the south' more generally.

There is obviously an element of truth in this, in the sense that London's great concentration of service sector graduate level jobs depends on its capacity to attract talented young people from elsewhere to fill these – and that this in turn has been growing as such jobs increasingly concentrate in London.

But it is also the case that the openness of London jobs at this level to recruitment from across the UK and beyond provides positive opportunities for talented young people from economically less successful regions. Indeed it is the reason why life chances for such people are little dependent on where they are born within the UK, which is arguably the key test of spatial equity.

Beyond this is the fact that the London economy and its labour market seem particularly effective in developing the capacities of workers of this type, adding very substantially to the initial stocks of human capital 'borrowed' from other regions. This 'escalator' function, reflecting the incentives to on-the job learning for able workers in a highly competitive London labour market, as well as the simple concentration of leading-edge job types, seems to be one of the major elements in London's economic competitiveness.

Indeed for all full-time workers in London private sector jobs, it has been estimated that one third of London's higher average earnings, and thus implicitly productivity, derives from superior occupational advancement among London-based workers. In part, no doubt, this reflects positive selection, with those drawn to the city naturally

including more of those able and motivated to take advantage of these opportunities.

3.3 The Position of Key Sectors

3.3.1 Financial Services

Central London financial services (in the City, West End and Canary Wharf) involve skills, roles and markets which are unique within the UK. Other UK financial centres, including Edinburgh, Manchester, Leeds and Birmingham lack the range of specialism on offer in the capital.

This dominance, and London's key role in international finance, owes a lot to history, building on institutions, business, reputations and skills laid down in earlier eras, when London was an imperial centre. But the City's rebirth as a dynamic financial centre in the 1960s, and its regeneration from the mid-1980s, clearly depended on a more vigorously competitive stance, vying with New York in particular for international business, with the benefit firstly of less onerous regulatory restrictions, and then of opening itself up to foreign participation and the removal of internal barriers to change.

In the process, while British owned financial institutions have lost out to foreign (and especially US) rivals, the City has reinforced its position as a centre in which to do business. Thus in 2007, according to LABS, there were some 54,000 jobs in foreign-owned financial service firms in the City of London, Westminster and Tower Hamlets[9] (30% of the total). Effectively it seems that London has become a second home-base to a series of overseas banks, notably from New York. The stability of this role has been tested during the present economic crisis, but there has been no serious evidence of any of the surviving finance houses seeking to 'go home' – though, in practice (as chapter 5 notes) the sector as a whole seems to have suffered less from the downturn than a number of other productive sectors.

In terms of the broad indicators of competitiveness, London financial services perform strongly in exports, with an estimated 19% of sales from establishments in the sector within the three core areas (City, Westminster, Tower Hamlets) going abroad in 2007, according to LABS responses. A very large part of these exports comes from a minority of businesses which are very strongly international. In the 2007 LABS, respondents representing a quarter of financial service jobs in these areas reported some overseas sales in the previous year, while a further 20% said they did not know – but the majority (56%) said they had zero exports. Among the last group, a small minority had their main market within London, and might have been part of the supply chain for internationally-oriented businesses, but most were serving the UK market as a whole with the great bulk of their sales outside the South East. The majority of central London financial service employment thus appears to be essentially UK-oriented. Those with some export sales, on the other hand, appear to be strongly-oriented to overseas markets, with exports accounting for 63% of sales, and only 15% going to areas in the UK outside the South East.

There are thus very clear differences in market orientation within the financial services group, rather than it largely being a case of many firms with a proven

[9] i.e. effectively Canary Wharf

competitive advantage in the UK market simply managing to apply some of this advantage overseas. This is now associated with a quite different ownership mix. The internationally-oriented segment is that which is now largely in foreign ownership. The 2007 LABS indicates that both among known exporters and those with unknown patterns of sales there was at least 60% overseas-ownership. The domestically-oriented sector remains very largely in British ownership, however, with some 95% of the firms reporting zero exports being entirely UK-owned.

In terms of *growth*, the pattern noted above for London financial services to outperform the rest of the UK in the years since the last recession - though not before – is really a phenomenon of City-type activities. Inner London increased its share of GVA in the sector from 35% to 41% between 1995 and 2006. This was a striking performance, but so strongly associated with the form of the credit boom that it cannot be simply interpreted as evidence of London out-competing other regions.

Performance in terms of *productivity* is more difficult to assess in financial services than in other sectors, because there are few relevant quantity (or 'value') measures of output that can be reliably separated from price effects. The 'product mix' is constantly changing and pricing of these products is a function undertaken by the sector itself, with evident uncertainties in the process and about its outcomes. It is also somewhat problematic that banks themselves own substantial amounts of the more sophisticated products whose values have proved especially uncertain.

Simple indicators are enough, however, to show that central London financial services are in a league of their own within the UK. With about 26% of the national FTE workforce in the sector, Inner London accounted for 41% of measured GVA in the sector in 2006, suggesting that output per head was about 55% above the national average. More recent (2008) data on earnings from the LFS suggests an even larger differential, with average hourly earnings in Inner London some 66% above the UK average. About two thirds of this differential was directly attributable to differences in worker qualification, age and occupational mix, which might be expected to contribute similarly to London's higher output per head. But there was still a residual difference of about 22% in earnings not explicable in those terms Inclusion of annual bonuses, which have become an increasingly important factor, as US business practices have spread into the City, would add significantly to this margin.

Though not well reflected in CIS surveys of new products, innovation in various forms has been a notable feature of London financial service development over the past decade in particular. The rapidity with which innovations have emerged and been adopted over this period has reflected a combination of technological, institutional and market developments, with similar significance for both global financial centres – together with some factors which particularly boosted innovation in London (Wood and Wojcik, 2010). Among these London-specific factors were:

- a combination of stronger-financial incentives, and liberal immigration control, enhancing London's capacity to attract talented young workers from many countries;
- a principles-based regulatory regime under the FSA; and
- development of a complementary relationship between New York and London operations, with products initially developed in the former being

adapted and rolled out for international application through London, often notably via London offices of US banks (Wood and Wojcik, 2010).

In the event, the consequences of non-transparent marketing of these new products proved to be severe, as the result of a combination of factors including the pressures exerted by the strongly incentivised system on the regulatory approach. The immediate consequences for the wider economy have been very damaging; the longer term implications for the scale and competitiveness of London financial services have still to be worked out.

3.3.2 Business Services

Even when financial services are excluded, the business service sector is a very broad one, including a range of services encompassing law, accountancy, consulting, IT services, advertising, conglomerate headquarters and many more specialist services (including research and design) – together with (in conventional ABI statistics) employment and cleaning agencies servicing a wide range of sectors, not all of them office-based. London's strengths encompass all of these, including major elements falling within the information/communication, professional/scientific/technical, and administrative support service categories in the new 2007 SIC - though within more routine elements of the last group, notably call centres, there is less activity in London than elsewhere.

This new industrial classification is actually more transparent and useful than those available for financial services, since much of the sector developed from distinct professional groupings and there have been no direct counterparts to the quite opaque 'banking' category. This situation has been changing with the rise of multi-functional firms, typically from accounting origins, and this process is likely to go substantially further as deregulation spreads further across the professions - notably with the 2007 Legal Services Act, which allows alternative business structures with non-lawyers in professional, management or ownership roles.

Though this is the largest element in London's economic base, its competitive position is not well understood. As a forthcoming paper points out:

> 'It is ..often assumed, especially in The City, that their primary role is to support the financial services and augment London's financial competitiveness. In fact, London's professional and business KIBS [knowledge-intensive business services] serve clients in every other national sector, and many overseas. Their independent influence on national and UK regional innovation and competitiveness, however, is generally neglected ..... This is partly because in London they are assumed to shadow the financial services, but also ...., because there are real difficulties in separately identifying and measuring this influence (Wood and Wocjik, 2010, 4).

This may be particularly important to understand at a time when the prospects for London financial services are less assured. But data on sales patterns have made it clear for some time that London business services have strong markets in their own right across the UK and globally (Buck et al, 2002; Gordon et al, 2003).

The competitive strength of London business services is well indicated by their external market penetration, though to some degree (if less than in finance) the

strong trans-national orientation of particular firms is a matter of specialisation. Neither growth nor product innovation show London firms up so clearly as out-competing other areas within the UK. London's share of GVA in the sector has changed rather little through a period of rapid overall growth. There has been a north-south divide in growth within this sector, but London's performance has not stood out above its neighbours (or the East Midlands). And, since 2001 at least, its share of higher value-added jobs, (proxied by graduate employment), has also remained more or less constant, at about 33%.

In terms of innovation, many areas of business services exemplify the point that what matters in advanced service activities is responsiveness - to changing market conditions, and to the requirements of individual customers – more than 'new products'. This is where London's competitive strengths lie, in work which contributes to the co-production of innovations with clients, rather than simply the sector's own products or 'processes'. Key London attributes for this purpose are 'the ability to assemble and novel arrays of knowledge and expertise from international sources of specialised labour', coupled with institutional flexibility (Wood and Wojick, 2010, 22).

It remains true, however, that significant parts of the business service sector derive competitive benefits of a traditional sort from proximity to major sets of clients (including corporate HQs), to key institutions including the Law Courts where disputes over international as well as UK contracts written under English law have to be determined, and ready air access for international clients and collaborators.

3.3.3 Tourism

London is the UK's dominant international tourist centre. The industry brought in approximately £10.5bn in overnight visitor spending in 2008, with 80% coming from the overseas market. This represented 50% of all overseas visitor spending in the UK. By contrast it accounts for only one tenth of domestic tourist spending. This disparity particularly reflects the fact that overseas visitors tend to stay much longer, averaging 6 .1 days in London, versus 2.4 days for domestic visitors. In addition, day visitors to London are estimated to spend £0.5bn on entertainment (LDA, 2009)

Overall, LDA (2009) estimate that the London tourist industry employed 256,000 people in 2007. This would represent about 6% of London's total workforce, and about two thirds as many jobs as in financial services. In income terms, however, the two sectors are not comparable, since the majority (55%) of tourist sector employment is in the hotel/catering sector, which has the lowest average earnings of any part of the London economy (£269 p.w. in the first quarter of 2009, just 43% of the London average). Unsurprisingly many of these jobs are occupied by recent migrants. Average earnings in the remaining jobs (many in transport) would be about double this, suggesting that each job in the sector generates about two thirds of the average London weekly earnings.

In this respect (and in the generally low level of human capital in its workforce) the sector stands in sharp contrast to the other key sectors identified in the economy, in each of which average earnings are well *above* the London average.

Overseas tourism grew strongly until 2006, but since then the numbers of both overseas visits and nights stayed have fallen (by 3.6% and 5.2% respectively in 2008). Domestic tourism, on the other hand, has been in fairly steady decline since 2002,

only turning up slightly in 2008 (perhaps as a response to recession). In GVA terms, over the long run since the 1980s the hotels/catering sector is not one in which London has shown above average growth, until the last decade when it seems to have been a beneficiary of cheaper labour in the period of peak immigration from poor countries.

The competitive position of London tourism derives from a combination of historic and big city attractions, backed up by a concentration of the major ports of entry into the UK – more than specific innovations by the industry. As with other big city tourist industries, there are structural problems in relation to assuring and sustaining quality in core services which are not overly dependent on repeat business. These are being currently addressed with a number of initiatives by the LDA including a drive to get more hotels included in grading schemes.

Visitor satisfaction ratings are comparatively good, however, and above those reported for overseas visitors across the country as a whole. They are highest in relation to tourist activities, notably for museums, heritage and parks, which rate as very good. They are generally also good for quality of service – a bit less so for accommodation quality, welcome and cleanliness. Only for costs do they clearly fall below good - though most respondents would have been in London before the sharp depreciation of the pound in late 2008 (TNSTT, 2009).

In the long term, London's position as a tourist destination should be strengthened by the 2012 Olympics. While some tourists may be deterred by fears of congestion and high prices during the period of the Games themselves, the infrastructure improvements and new hotel provision will improve London's offer in the future.

3.3.4 Creative Sectors

The cultural or creative sectors of the London economy have in common with tourism the fact that they are not readily distinguished from standard industrial classifications, which they tend to cut across. On the definition formulated by DCMS and adopted by the GLA, employment in the sector comprises employment in a number of designated 'creative industries' - broadly the visual arts plus publishing, audio-visual media and performance arts – together with individuals in other sectors working in 'creative' occupations. On this basis they have been estimated to include some 554,000 jobs in London as at 2005. This represented 25% of the national total, though in the core creative sectors London's share was 32%. The share of other parts of the Greater South East was, however, even larger, and this is one metropolitan activity which is clearly not confined to Greater London.

London's share was particularly strong in advertising, publishing, film/video and radio/TV. In absolute terms, leisure software and music were also very large employers in London. Approximately half of these were people involved directly in creative functions, and another third in fabrication, with the rest in dissemination and exhibition (Freeman, 2007).

This has been a rapidly growing sector of the economy, with London employment increasing by about 3.6% p.a. between 1994 and 2005 – closely in line with the national growth rate. Growth was particularly strong in leisure software and radio/TV. During this period there has been substantial volatility, however, with peak employment being reached in 2001 and falling back thereafter. This has been

attributed to the impact of a slowing of growth in the finance/business sectors of the economy - magnified by the fact that creative sector products are typically luxury goods in economic terms, particularly vulnerable to shifts in purchasing power. About two thirds of demand is, however, mediated by other sectors which purchase the direct outputs of the creative sectors (Freeman, 2007).

Given the composite nature of this sector, other performance indicators are rather hard to find. However, evidence from the 2007 LABS for the major elements of the sector, indicates that in London it does rather well in terms both of exporting and innovation. Its export share of sales is estimated at 12%, at or slightly above the level recorded for (other) manufacturing and finance/business services, and about double that in hotels/catering. In relation to innovation, it suggests that 9% of the sector's turnover was comprised of major products/services or major modifications to existing ones[10]. This compares reasonably with estimates of 11% for other manufacturing and for finance, and is significantly above the 6% indicated for business services and hotels/catering.

The picture is that this is not only a large and growing sector of the London economy but one which in absolute terms at least shows evidence of competitiveness. It is, however, a field (like business services) where London's strength is shared with others parts of the Greater South East.

3.4 Summary

The London economy has displayed competitive strength for at least the past 25 years in a very wide range of service activities. In many cases its advantage goes back further than that, with change mainly taking the form of general expansion in the sectors concerned, alongside contraction in those where London's position was weaker.

In each of these sectors – and the four broader 'key sectors' we have focused on - London draws on a combination of some distinctive assets, a very broad range of agglomeration economies (based on its size and diversity), plus the capacity to attract and develop a highly skilled labour force.

Finance is arguably the one case where London plays an absolutely distinctive role, at least in relation to the segment – now largely foreign-owned, specialising in international business. At any edge of the spectrum, tourism is the one case where price is an important issue, and little use is made of highly skilled labour. Business services and the creative sectors, lie between these extremes, though closer to finance in their position within the knowledge economy. In employment terms these are the major sites of past and potential growth. Like finance they also are somewhat cyclically volatile, but free of the major sources of strategic uncertainty currently facing the finance sector.

[10] This is a more demanding criterion than that used in the EU CIS cited earlier for inter-regional comparisons.

Even in these sectors, London's competitive strength relative to other parts of the UK is something displayed more in qualitative terms – through exporting, productivity and in some ways, innovation – rather than larger quantitative expansion, particularly in employment terms.

Chapter 4 Labour Markets, Housing Markets and the Economic Welfare of Londoners

4.1 Introduction

The transformation of the London economy since the early 1980s has in many ways been a success story, with both the city and its wider region achieving very strong economic growth by UK standards. In the process, there have been considerable shifts in the composition of both London's population mix and employment base. The form of the city's economic success has also been bound up with two negative characteristics: the high degree of economic volatility discussed in the last chapter; and a substantial increase in economic inequality.

Growing inequality, with continuing growth in the numbers and rewards of high earners combined with periods of high levels of worklessness, has been a feature of the UK as a whole during this era, not only of London. This has had more favourable effects on demand and (measured) productivity in the London economy, because of its concentrations of highly skilled knowledge workers and other groups benefiting from a stretching of the income distribution. Faster growth in the number and purchasing power of high earning residents has had knock-on effects which may be negative for the average Londoner, notably an upward pressure on property prices, and hence on the cost of living.

For reasons that are less obvious, worklessness among London residents has also tended to increase, relative to levels elsewhere. By the start of this downturn, the proportion of London's working age population actually in jobs was below that in any of the (economically unsuccessful) regions of the north and west[11]. This is a phenomenon which might conceivably have negative consequences for the sustainability of London's economic success. But, in any case it raises important questions about how far the city's aggregate economic performance is linked to the welfare of most of its population.

The focus of this chapter is on the processes which connect economic change/growth across London to outcomes for different groups of residents. In particular it examines the role of the city's labour and housing markets in mediating the impacts of developments in the production sector, with a side-look at the impacts of personal taxation (to be followed up in more depth in chapter 7)

4.2 The London Labour Market

As was noted in the last chapter, London's labour market is one of its key assets, not only in terms of the range of options on offer, for both workers and employers, but also in its flexibility and the incentives provided for individuals to develop their talents. But a combination of high rates of worklessness with reported skill shortages suggests that there are shortcomings in how it functions. To investigate these, three topics are examined in turn:

[11] Early effects of this recession were, however, more severe in the industrial regions, for reasons discussed in chapter 5.

- The balancing of overall labour supply and demand;
- Relative earnings levels in the city; and
- The incidence of worklessness.

4.2.1 Matching Shifts in Labour Demand and Supply

Despite very large fluctuations, the trend in London employment since the early 1980s has been rather more positive than in other parts of the country (as was noted in chapter 2). Alongside the expansion of labour demand, there was also an above average increase in labour supply, because of renewed growth in the city's working age population. This principally reflects high rates of in-migration from overseas, only part of which is directly linked to current levels of labour demand in London, as distinct from push factors abroad. A basic challenge for the labour markets of the London region is then to secure adjustments in one way or another to bring these into balance.

For the last decade, where relatively comprehensive and consistent data on supply and demand shifts are available from the Labour Force Survey, the scale of this challenge can be seen by comparing key components in London's labour markets 'accounts' (Table 4.1).

Table 4.1: Labour Supply and Demand Changes in London, 1998-2008 (000s)

	1998	2008	Change 1998-2008
Jobs	3548	4061	513
Working Age Population	4410	5086	676
of which foreign-born	1396	2101	705
Economically Active residents	3374	3853	479
of which foreign-born	958	1539	581
In-commuters	692	783	91
Out-commuters	242	301	59
Net commuters	450	482	32
Residents in Employment	3098	3579	481
Unemployed	276	274	-3

Source: Labour Force Survey, 4 quarters averaged

Notes: for consistency with the measure of economic activity, the count of jobs (and of commuters) only includes the main job held by any person, not any subsidiary jobs they may have held.

Starting from the top of this table, on the demand side, London experienced exceptionally large employment growth over this decade, averaging some 50,000 jobs p.a. - double the long-run (peak-to-peak) trend rate of increase. This was, however, almost matched by growth in the labour supply from London residents. The city's working age population showed a rapid growth (of 68,000 p.a., or 15% over 10 years), entirely due to growth in the foreign-born population (up 51%). By 2008 this group comprised 40% of London's working age population. With an unchanging economic activity rate over the decade as a whole, this added 479,000 to the total labour supplied by London residents, whether they were in work or actively seeking it. Over the period as a whole this increase was about 10% (or

34,000) less than the growth in London-based jobs, suggesting a likely tightening of the London labour market, and a potential reduction of local unemployment.

However, commuting patterns are another variable element in the picture. About 20% of London workers come in from elsewhere (mostly to Central/Inner London jobs) and about 10% of London residents (mostly from Outer London) work outside Greater London. The trend has been for both sets of flows to grow at similar numerical rates, without much change in the net balance of inward movement. Over this period, however, though out-flows grew by a quarter (reflecting a lack of job growth in Outer London to be discussed in chapter 6), the rate of inward movement grew by more, responding to the exceptional scale of job growth in core areas. The effect was to produce an upward shift of 32,000 in the balance of commuting into London, almost exactly matching the excess of growth in London jobs over labour supply from among London residents – leaving unemployment rates among Londoners virtually unchanged.

This experience effectively demonstrates the openness of the London labour market, and the potential for commuting flows to adjust powerfully to spatial imbalances in labour supply and demand change, even at the scale of London as a whole. It illustrates the crucial importance of seeing London in its wider labour market setting,

The ultimate outcome - from this period of rapid job growth - of little change in London's unemployment is a very disappointing one, especially given the substantial reductions achieved elsewhere in the UK, and especially across the Greater South East as a whole.

An important part of the explanation is obviously the strong contribution of international migration to labour supply growth over this period. This included both the years of large scale asylum-seeking (adding both regular and irregular workers in London; Gordon et al., 2009), and the post-2004 influx from the Eastern European EU accession countries. Such immigration will have added not only to numbers seeking work, but also to the number of jobs – both via these migrants' own (comparatively modest) purchasing power, *and* by allowing potential demands to be satisfied, notably in low wage service jobs. It is not clear what their net effect on unemployment should be, but the evidence so far does not suggest that it has been significant within London - though they may have depressed participation rates somewhat across the GSE as a whole (Gordon et al., 2007).

This apparent dispersion of the effects of immigration well beyond London itself is consistent with the evidence that commuting patterns adjust strongly to imbalances in labour supply/demand change as between London and the rest of the Greater South East.

As far as the aggregate balance of supply and demand within the London labour market is concerned, the most relevant available indicator (the total job vacancy rate) indicates that it has remained relatively tight. In mid-2007, when the latest NESS survey was undertaken (LSC, 2008), London's job vacancy rate was higher than that for any other official region, at 3.5%, compared with 2.9% for England as a whole (and 3.1% for the rest of the Greater South East)[12].

[12] These survey-based data relate to all current job vacancies recognised by firms, in contrast to the Job Centre Plus counts which cover only those which it handles. Their share of the market has

To understand why worklessness within London increased, when it was falling in its hinterland, other factors need to be brought into the picture, including the competition between groups among the London population with particularly low employment rates and those who commute in from elsewhere. These issues are addressed in section 4.2.4.

4.2.2 Earnings

For the majority of the London workforce, earnings potential over the short and long run, and its relation to living costs, represents the crucial criterion against which the city's productive performance should be assessed, and compared with the situation elsewhere in the UK.

Table 4.2: Distribution of Annual Earnings London versus UK, 2008

	Annual Earnings		London relative to UK
	London	UK	
Percentiles of the earnings distribution			
90th	**£76,924**	**£49,923**	**154%**
75th	**£46,992**	**£35,479**	**132%**
50th (median)	**£32,778**	**£25,123**	**130%**
25th	**£23,427**	**£17,781**	**132%**
10th	**£16,832**	**£13,458**	**125%**
Mean	**£46,462**	**£31,323**	**148%**

Source: Annual Survey of Hours and Earnings (ASHE)

As already noted, on a simple average basis, earnings levels among those working in London are well above the national mean. On the most comprehensive indicator (from ASHE), gross annual earnings of full-timers working in 2008 averaged some £46,500. This was 48% above the UK average, and 61% above that for the rest of the country. The scale of this differential does not, however, reflect the position of the great majority of London workers. Comparing the position of workers at equivalent positions in the local earnings distribution, it emerges that it is only within the top 10% that the margin is as great as this (Table 4.2). Between the upper and lower quartiles (spanning 50% of London workers), average annual earnings are just 30-32% above the UK average. At the bottom decile (those 10% from the bottom end of the distribution), the differential is down to 25%, and for many people within this decile it might be considerably lower[13].

grown substantially over recent years, in response to their marketing campaigns, but remains disproportionately low in London, making JCP statistics a misleading basis for comparison. ONS' published *national* vacancy statistics are now based on company surveys, rather than administrative counts, but provide no information at the level of specific establishments as a basis for area statistics. These are available only from the biennial NESS surveys.

[13] From the same source, we know that for jobs in occupations representing the bottom 20% in terms of pay nationally, average earnings in London were just 20% above the UK average in 2008. The

One reason for the strong positive skew to the profile of earnings in London has been the role of bonuses and other forms of incentive pay. Overall these accounted for 16% of the pay-bill for full-time London workers, with an average figure of £7,500 in 2008 – though the median worker received only a third of that amount (equivalent to 7% of their pay). About 45% of all incentive payments in the UK as a whole appear to go to London workers, including 13% for those working in the City. For London as whole, incentive payments more than doubled between 2002 and 2007, both in absolute terms and as a share of total income, falling back only slightly in 2008. Half of this growth was attributable to the City of London, where they increased by a factor of 4 (Table 4.3). This has contributed to growing earnings inequality within London. But, even on an hourly/weekly-paid basis, excluding this element, the earnings differential is still much sharper at the top end, while for the great (middle) mass of Londoners it remains at around 32% on such measures.

Table 4.3 Trends in Bonus/Incentive Payments in London 2002-2008

	Mean per worker (£ 000 p.a.)		Proportion of Annual earnings	
	City of London	Greater London	City of London	Greater London
2002	£7.9	£3.1	14.0%	12.3%
2003	£14.5	£4.2	22.6%	16.4%
2004	£15.2	£4.7	22.9%	17.2%
2005	£21.0	£6.0	28.3%	21.2%
2006	..	£7.1	..	24.5%
2007	£32.5	£7.8	37.4%	26.1%
2008	£24.6	£7.5	30.0%	23.9%

Source: Annual Survey of Hours and Earnings (via NOMIS)

Another reason why earnings levels in London are typically so much higher than elsewhere is, however, simply because the capital employs a disproportionate share of the most highly qualified workers. These people might expect to attract above average earnings in almost any area, so some control for the selective character of London's workforce is necessary to arrive at a reasonable view of how much advantage actually accrues to those who work in this city.

Taking the LFS as a data source, since it contains more background information about workers' characteristics, we can start to explore how far the overall gap in average earnings between London and the rest of the UK is attributable to such compositional differences. The measure used is based on the *logged* value of hourly earnings, since this both reduces the impact of sampling and reporting variations at the very top of the distribution, and also shifts the focus somewhat nearer the middle of the distribution. On this basis, London earnings (for the first quarter of 2009) appear to be some 51% above the rest of the country - equivalent to 42% above the UK average. Excluding the influence of education/qualifications, age, gender, full/part-time work, ethnicity and other relevant personal characteristics reduces this differential to 36%. Adding controls for occupation, to reflect informally acquired human capital differences, further lowers it to 26%. In broad terms then, it appears that half of the London earnings differential reflects relevant differences in worker

margin had been only half that in 2002), but continued to be depressed by the crowding of recently arrived migrants from poor countries into this tranche of jobs (Gordon and Kaplanis, 2009).

characteristics, but that half is a (more or less) pure 'London' effect. For a typical individual, on this LFS-based measure, average earnings in London could be expected to be about 22% above the UK average for people in a similar position.

This relationship between London earnings and those elsewhere in the country does not seem to vary significantly with qualification level. But the financial benefits of working in London are clearly much less for those in part-time jobs and/or working in the public sector. Public sector pay rates tend to be set nationally, with the addition of a fixed London 'weighting'. They are therefore much less responsive to market conditions. As a result, public sector earnings elsewhere in the country are often rather higher than those for comparable private sector positions, while in London the reverse is the case.

In the case of part-timers, however, lower rewards in London appear to be a market outcome, as they are only evident within the private sector. Since the proportion of part-time jobs is also substantially lower in London, particularly in the centre, the explanation seems to lie in a relatively lower *demand* for such workers. This would be despite the strong presence of job types employing many part-timers elsewhere. One possible explanation is that part-timers are less attractive in the non-routine activities in which central London firms (particularly) specialise. But it may also be that in its dense '24 hour' economy, the use of part-timers to cope with fractional demands or highly concentrated peak hours is rather less salient. The current availability in London of recent migrants from poor countries willing to take on some of these jobs at low pay on a full-time basis might also be a factor. Whatever the cause might be, the poor rewards for part-time work in London might be a substantial deterrent to seeking work for those with family responsibilities.

4.2.3 Worklessness

The existence of concentrations of unemployment within parts of Inner London has been a matter of periodic concern since the late 19th century, typically at times of general economic recession when such black spots become more prominent. However, the issue came to the fore again in the mid-2000s (HM Treasury, 2006 and 2007), near the peak of the boom, stimulated by shock that such an obviously successful city economy could have levels of worklessness (both unemployment, and, especially, non-participation in the labour market), even exceeding those in the least prosperous regions (such as the North East or Northern Ireland).

Within the context of the Greater South East (GSE) which represents a highly integrated labour market region, it is easy to understand that areas such as inner east London, offering affordable housing to groups in the weakest position in the labour market, will always have unemployment rates much above those of more comfortable areas out in the stockbroker belt. The net effect of such social differences has always been to push Greater London's overall unemployment rate well above that in the two adjacent 'official regions', no matter whether London's growth/competitive performance were better or worse than that in the East and South East - since growth effects get diffused across the whole GSE.

However, the scale of the gap in rates of worklessness between London and its neighbours does appear to have widened substantially over the last decade or so, for reasons that are not obvious – to a point where the London rate was not simply above the UK average, but above that in any other region. The broadening of

attention to forms of worklessness other than formal unemployment has also highlighted particular issues in London.

Surprise over relatively high levels of unemployment within Greater London, particularly in relation to other parts of the Greater South East has generally been easy to counter by explaining that London was integrated into a much wider labour market region, and that the inner areas simply housed a much larger proportion of the population groups facing the greatest risks of unemployment. These include some ethnic minorities, single men, recent immigrants from poor countries, the least educated and those with health problems. Some of these groups have grown in size as a consequence of increased migration over the past decade or two, but others have not, and it is not obvious that the degree of disadvantage they face should have grown substantially.

Table 4.4: Economic Activity in the Working Age Population: London compared with GSE and UK, 2008

	London	Greater South East	U.K.
Employed:			
Full-time	57.2%	58.5%	56.5%
Part-time	13.3%	16.4%	17.0%
Unemployed	5.2%	4.4%	4.5%
Economically Inactive	24.1%	20.5%	21.8%
of whom			
students	7.9%	6.1%	6.3%
looking after family	8.1%	6.9%	6.4%
Total	100%	100%	100%

Source: Labour Force Survey composite 2008

Notes: 1. All figures represent percentages of the resident working-age population. Hence figures for the unemployed are lower than for conventional unemployment rates which are expressed as percentages of the active population (employed and unemployed) only; 2. Figures for part-time work relate only to individuals' main job.

In terms of the proportion of the working age population actually in jobs, London was below both the national and GSE averages in 2008 - at a time when the recession had yet to make much impact on employment levels. Its overall employment rate of 71% was 4% below that for the Greater South East as a whole and 3% below the national rate (Table 4.4). Within this overall total, the proportion of part-time workers in London was notably low. Among the workless, the rate of actual 'unemployment' (on the OECD/ILO definition of people actively seeking work) was actually less than 1% above the GSE or UK rates. The big difference was in the proportion who were 'economically inactive' (i.e. neither in work nor actively seeking it), which was 2% above the national average and 3% above that for the GSE as a whole. This difference was concentrated in two groups, those who were currently students, and those looking after a family – with rather fewer who were either chronically sick/disabled or prematurely retired than in the regions of traditionally high long term unemployment.

The rates of worklessness recorded in London are not actually out of line with those for the other UK conurbations, or with the general tendency for such rates to be higher in big cities than in their hinterland. That has been a long term pattern, with

London representing a rather extreme case because of its scale. But its relative position in terms of employment rates has clearly deteriorated over the past decade, particularly in relation to its hinterland, the rest of the GSE. There have been spells within the last decade when the overall north-south gap in employment rates was closing – affecting the GSE as a whole - thanks to a faster growth of public jobs in the north and perhaps that of immigration in the south. But across the period 1997-2008 as a whole, it was the Greater South East which showed the more positive trends in employment, driving down both unemployment and inactivity rates quite substantially. London was unusual in lagging behind, with only a modest reduction in its unemployment rate and an actual increase in the proportion of inactive among its working age population (Table 4.5).

Table 4.5: Changes in Employment, Unemployment and Inactivity Rates: London compared with GB and GSE, 1997-2008

	London	Greater South East	Great Britain
Employment rate			
1997	69.70%	75.10%	73.20%
2008	70.4%	78.0%	74.2%
Change 1997-2008	0.70%	2.87%	1.00%
Unemployment Rate			
1997	9.00%	6.40%	6.60%
2008	8.30%	3.53%	5.60%
Change 1997-2008	-0.70%	-2.87%	-1.00%
Inactivity Rate			
1997	23.40%	19.80%	21.50%
2008	24.30%	18.15%	21.20%
Change 1997-2008	0.90%	-1.65%	-0.30%

Source: LFS quarterly average June 1997-may 1998; Annual Population Survey 2008.
Notes: 1. All data relate to working-age residents; 2. the employment rate is the proportion of this population in employment; the inactivity rate is the proportion of this population neither employed nor actively seeking work; the unemployment rate is the proportion of the active population (employed plus unemployed only) who are unemployed seeking work (on ILO definition).

This is quite surprising, both because (as was argued earlier) London is effectively integrated into the GSE in labour market terms – with commuting flows across its border responding flexibly to spatial shifts in the balance of supply-demand – and because vacancy rates indicate that it shares the strong pressure of labour demand characteristic of this region. It could be that the acceleration of immigration, and the accumulation of irregular residents from among former asylum-seekers, has increased the concentration of relatively disadvantaged individuals within London. Or, it could be that other population movements have brought more people to London who are not currently interested in working - including many of the rapidly growing number of students

Certainly there are many in London who say that they do not want work. These include people with family care responsibilities, study commitments, or religious affiliations that discourage outside work by married women. But 'not wanting' work may also be influenced by awareness of the lack of part-time jobs, depressed pay in the bottom tier of jobs increasingly occupied by immigrants, and/or the disincentive effect of housing benefits in a high cost city.

In order to explore such issues in relation to current cross-sectional differences between London and the rest of the Greater South East, we have used individual-level data from the 2008 LFS to investigate statistically how the chances of being unemployed, inactive but wanting a job, or inactive and not wanting a job vary in relation to individuals' other characteristics, and to the part of the GSE in which they live.

This analysis confirms that a range of characteristics more common within the London population than among those living outside are associated with much higher chances of being unemployed and/or inactive. Some important examples include:

- being young and single;
- still being in education;
- living in social housing;
- being Muslim (particularly if female); and
- being a recent immigrant.

These factors and others (ethnicity, health status, education level, housing tenure and migration background) had the effect of accounting for 70% of the overall difference in employment rates between London and the rest of the GSE (Table 4.6)[14]. In fact, after adjusting for differences in the characteristics that significantly affect employment outcomes, there appeared to be no remaining difference in actual unemployment rates left to be accounted for. In relation to the proportion of inactive people who claimed to want work, this compositional adjustment accounted for 70% of the difference. For those who were neither seeking nor wanting work, composition accounted for just 60% of the gap between London and the adjoining regions – with the adjusted inactivity rate remaining 1.1% above the GSE average.

Understanding why this last group has become relatively so large in London seems to be the key unresolved issue in relation to worklessness in London. One possibility, mentioned above, is that some potential workers in low-skilled occupations may have lost interest because of wage levels reduced by the new migrants moving into such jobs in the early 2000s. Another possibility is that the absence of part-time jobs, especially in inner London, discourages others from being interested in work possibilities.

[14] In fact all those still in full-time education were simply excluded.

Table 4.6: Employment Rate Differentials and the Effects of Personal Characteristics: London in relation to the Greater South East, 2008

	Greater South East	Greater London	Greater London adjusted for personal characteristics
Working Age Residents: In Employment	79.2%	74.5%	77.8%
Unemployed	4.1%	5.0%	4.1%
Inactive:			
Wanting work	4.9%	5.9%	5.2%
Not wanting work	11.8%	14.6%	12.9%

Source: regressions with Labour Force Survey 2008 composite data

Note: data relate to working age people who have completed their full-time education.

Both possibilities have been explored, by including in the regression analyses measures of the likelihood that individuals would be candidates for jobs in the bottom quintile of occupations, or for part-time jobs[15], and seeing whether such people were more likely to have their activity rates lowered by living in London. The results, while not conclusive, lent support to the first hypothesis (that depressed wages may have reduced interest among non-migrants in employment at the bottom end of the labour market) but not to the second (that the lack of part-time jobs in particular reduces interest in work from those unable to take full-time jobs). There is supporting evidence in favour of the first hypothesis in terms of the timing of the sharpest increase in the gap between London and rest of GSE participation rates. In the period 1999 to 2002 it widened by 2%, alongside the peak intake of overseas immigrants to London, and a sharp narrowing of the gap in bottom quintile pay between London and the rest of the GSE.

There is reasonable circumstantial evidence then to suggest that the new element in London's relatively high incidence of worklessness since the late 1990s – over and above the major established effect of its population mix – was the discouraging effect of lower wages for entry-level jobs, in the context of a much larger influx of new migrants from poor countries into that segment of the jobs market.

4.3 The Housing Market

4.3.1 Increasing Demand

The housing market in London over the last decade has faced consistently increasing pressure of demand, arising from both demographic change and income growth. The increase in housing supply has not kept pace with this long term growth in demand, but there has also been evidence of some capacity adjustment in response to this pressure, notably through more effective use of the existing stock.

[15] These estimates were derived from logistic regressions of membership of these two groups (bottom quintile job-holders and part-time workers) on the same set of personal characteristics included in the unemployment/inactivity regressions.

The core issue is that the number of households accommodated in the capital has grown more rapidly than the housing stock. As a result the density of occupation of the available stock has increased, particularly in the private rented sector. The latest estimates suggest that over the five year period 2001 – 2006 this has resulted in a significant decline in the number of vacant dwellings and an even larger increase in sharing. The number of households sharing accommodation has gone up by perhaps 33,000, almost 40% of the increase in the country as a whole. Moreover there is evidence that the number of additional households over the five year period has probably been under 125,000, almost 20,000 below the growth expected in government household projections (Holmans et al., 2008).

4.3.2 Housing stock and tenure change

The housing stock in London has grown by some 6% over the decade from 1997–2007. This is much more slowly than for the stock in the country as a whole which has grown by 8% over the period (Table 4.7).

Within these totals there have been considerable differentials in tenure change. One in five units in London are privately rented and the largest proportional growth has also been in the private rented sector. Owner occupation on the other hand has grown at only half the pace of the country as a whole. Moreover, while the social sector has declined at a similar pace to the country as a whole, both the increase in Housing Association dwellings and particularly the decline in local authority dwellings has been less. London's tenure structure is therefore increasingly different from the rest of the country.

Table 4.7: Tenure (Dwelling Stock)

	1997		2007		Increase in Stock 1997-2007	Increase in Stock 1997-2007
	London %	England %	London %	England %	London %	England %
Owner-occupied	57	68	57	70	5	10
Private rented	16	11	20	13	40	35
RSL	7	5	9	8	45	91
Local authority	21	16	14	9	-27	-42
Total	3.0m	3.2m	20.6m	22.2m	6%	8%

Source: DCLG Live tables 109

The expansion of the private rented sector has been a major factor in enabling London to accommodate the rapid growth in international immigration. Private renting houses the vast majority of new migrants, particularly among those from rich countries going into well paid jobs. Relatively few migrants have any rights to social housing until they become long-term residents. Even in the longer term the proportion still renting remains high. Over time however, lower income employed households in London are disproportionately accommodated in social housing. The sector therefore plays a more significant role in providing housing for those in low

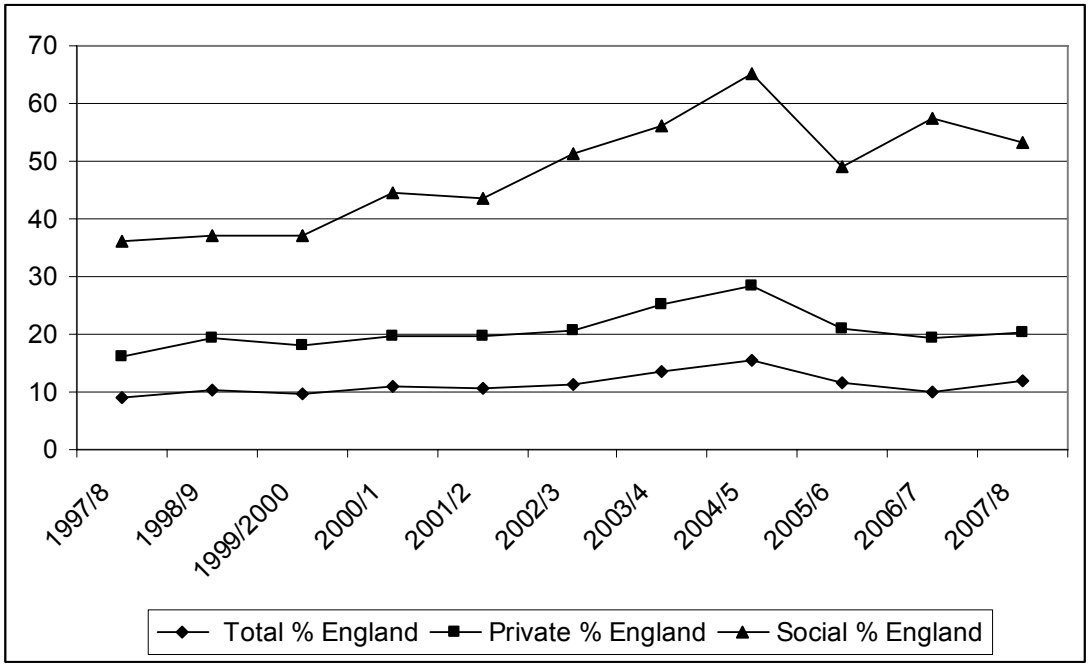
paid employment in London than it does elsewhere in the country (Gordon et al, 2007).

4.3.3 Housing Completions

Housing completions in London ran at somewhat under 15,000 per annum in the latter part of the 1990s, but then grew quite rapidly to a peak in 2004/05 of around 23,000 units. Output levels thereafter declined, despite the government emphasis on meeting targets of close on 30,000 per annum. Completions in 2008/09 were well below 20,000 and are expected to decline further.

Despite the relative demand pressure in London, in terms of construction rates per head the capital has only outperformed the country as a whole in one year in the decade, in 2003/2004. By 2007 London was losing out relative to the rest of the country as developers faced increasing difficulty in finding profitable opportunities although the relative position appears to have stabilised in Buy-to-Let .

Figure 4.1 Housing Completions in London as a Proportion of England (%)



Source: DLCG Housing Statistics

The position with respect to completions in the social sector has been very different, with rapid growth in the proportion of all social housing built in the capital, rising from under 20% in 1997 to over 30% in 2008/09. This success has come about as a result of disproportionate increases in government funding as well as a strongly enforced Mayoral policy requiring affordable housing as part of planning agreements under Section 106. Even so, social sector output has not been enough to offset the sluggish response in the private sector, and indeed may have exacerbated these difficulties through the pressure for Section 106 requirements.

London's housing policy calls for overall annual output levels of 33,000 plus, in order to meet the increase in the number of households and to improve housing conditions. At more than 70% above levels achieved in 2008/9, this target appears unrealistic not only in the present climate but also into the longer term.

Table 4.8: The Changing Composition of Completions

	1997/8		2007/8	
	London %	England %	London %	England %
1 bed	23	7	22	11
2 bed	44	27	62	44
3 bed	24	36	10	26
4+ bed	8	30	5	19
Houses	46	85	12	52
Flats	54	15	88	48

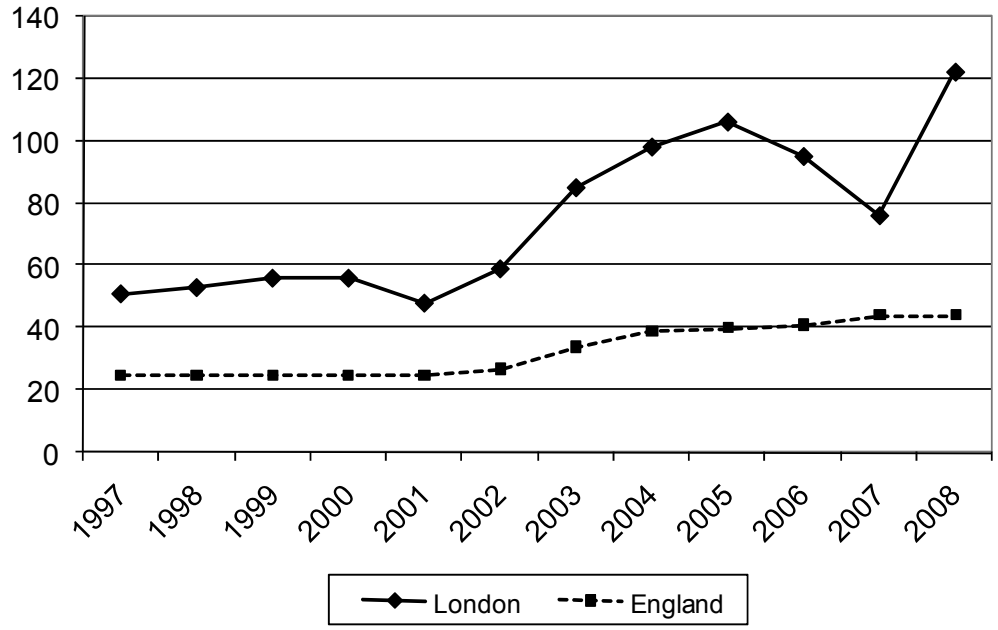
Source: DCLG Housing Statistics

One important trend in the last decade has been in the make-up of new housing investment. In 1997/98 almost half of new dwellings built in London were houses and almost a third had three bedrooms or more (Table 4.8). By 2007/08 the proportion of houses was down to 12% and that of 3+ bedroom units had more than halved to 15%. Thus the typical new unit has become a one or two bedroom flat.

This trend towards smaller units is also observable across the country – with the proportion of 3 bed plus units declining from 66% to 45% over the decade. The shift towards flats has been even greater than in London with the proportion of flats increasing threefold. Even so over 50% of completions in the country as a whole are still houses. Room sizes have also declined while densities increased by at least 70% over the decade (Figure 4.2).

The reasons for this very rapid decline in size and the associated increase in density are strongly related to government policy but also to the growth of the private rented sector. Government planning policy guidance continues to require local authorities to seek higher densities in all types of areas but particularly in inner urban areas. Second, the impact of S106 affordable housing requirements especially in London has increased the incentives to provide small flats, sold to key workers in the form of shared ownership. Third, the very rapid growth in the Buy-to-Let market, particularly since the turn of the century, has increased the profitability and lowered the risk of developing apartments. Finally, the pressures to concentrate output on Brownfield sites tend to shift development profitability towards smaller, denser, units.

Figure 4.2: Density of New Dwellings (dwellings per hectare)

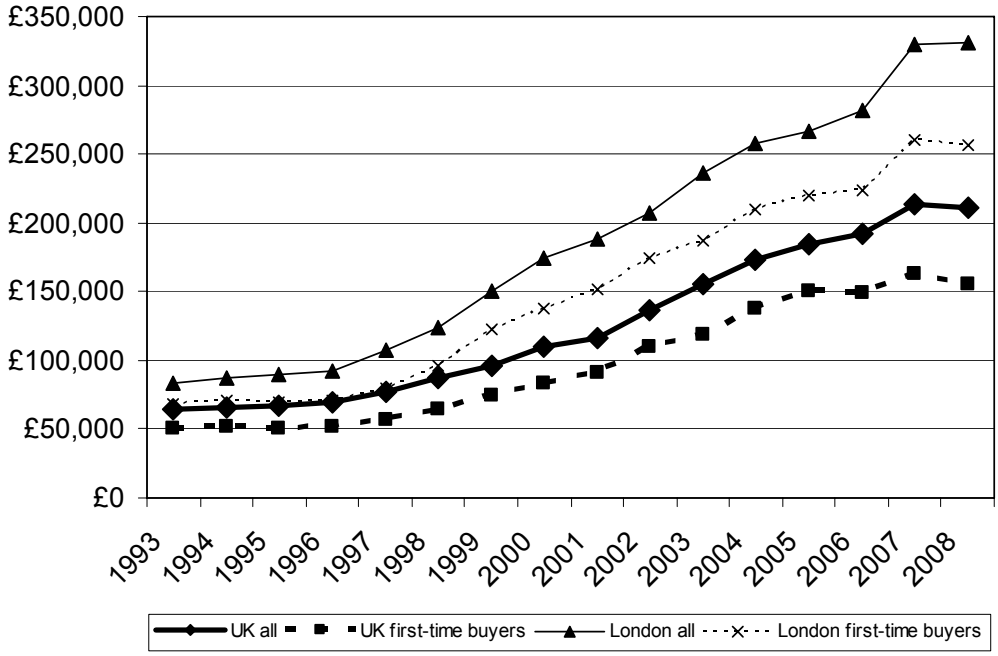


Source: DCLG Planning Statistics

4.3.4 House Prices

The most obvious trend in the housing market over the last decade has been the steady growth in house prices, until 2007, both in London and in the country as a whole (figure 4.3). Thereafter average house prices stabilised in London but fell in the rest of the UK. Between 1997 and 2008 the average price of a dwelling in London sold with a mortgage rose by just over 200%. The average price for first time buyers rose even more, by over 220%. This compares with rather lower increases of around 175% and 170% respectively in the country as a whole. It should also be remembered that the average price in London relates to a smaller unit and more often to a flat. Across the rest of the country the average dwellings has more rooms and is more likely to be a house.

Figure 4.3 House Prices 1997-2008 (£000s)



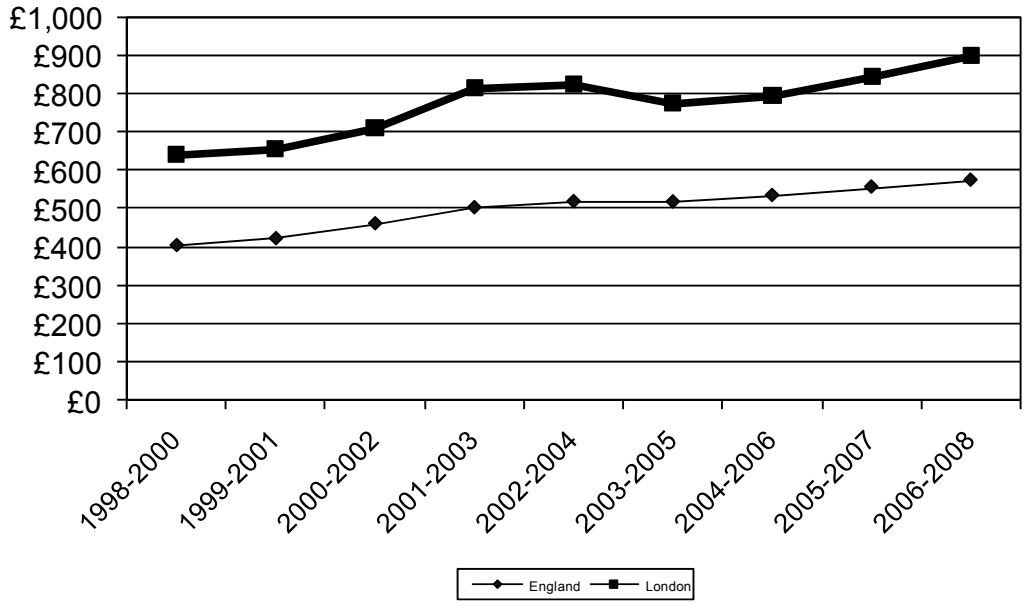
Source: DCLG Housing Statistics Table 507
Note: These figures are adjusted for the changing mix of dwellings sold in each region.

London house prices have also been more volatile than across the country. They grew particularly rapidly in the later part of the 1990s but were more affected by the general downturn in the market which slowed house prices in the early 2000s. Thereafter prices picked up quickly particularly as a result of increased investment in Buy-to-Let and investment demand both of which were much stronger than in the rest of the country. In this context it is perhaps surprising that average prices have held up better in London than in the rest of the country.

The position for first-time buyers in London has become considerably more difficult since the turn of the century both in absolute terms and in comparison to the country as a whole. The ratio of prices paid by first-time buyers as compared to all buyers also worsened significantly. In 1997 dwellings bought by former owner occupiers were almost 80% higher than for first-time buyers. By 2008 they were only 53% higher. In the country as a whole the equivalent ratios were 69% and 58%. As a result Londoners have been increasingly excluded from the market, while others have overstretched their borrowing capacity. The crisis of funding has, of course, worsened this position – as is reflected in the particular declines in prices paid by first-time buyers.

Rents in the private rented sector have risen far less rapidly. Over the period from 1998 to 2007 private rents in London have only risen by about 30% (Figure 4.4), a rather smaller increase than observed across the country. Thus the expansion in the supply of private rented accommodation in London appears to have reduced the pressure on rents, even though there have been such significant increases in demand particularly from international migrants

Figure 4.4: Rents (£ per month)



Source: DCLG Survey of English Housing

4.3.5 Implications for Housing Affordability

Housing market developments during the boom years have had major impacts on affordability, but ones which vary substantially according to the tenures to which individuals have access, and have particular significance for households with workers earning low wages.

Across the country as a whole, the costs of buying a home in the lower quartile of house prices rose by over 100% between 2002 and 2007. This compares with just 17% for private rents in the lower end of the market and 14.5% in the housing association sector. Over the same period lower quartile earnings increased by just over 12% – so average affordability even in the rented sector worsened. The only group whose affordability improved was among social tenants where tenant incomes rose somewhat more rapidly, with those on Housing Benefit gaining most.

In London the costs of owner-occupation at the lower end of the market rose far less rapidly than for the country as a whole (65% as compared to 102%). The pattern for private rents was similar but far less extreme (16% as compared to 17.2%). Only in the social sector did rents in London rise faster than average, at 21.8% compared to the average 14.6%. Affordability measured in price/rent to earnings however, showed a very different picture because lower quartile earnings in London rose by only 8.8% in London as compare to 12.2% in England – the bigger increases being concentrated in the South West and the North East.

As a result social tenants in London whose incomes rose less rapidly than average earnings faced worsening affordability as compared to the rest of the country. The same was true, but to a lesser extent, in the private rented sector with the rent/income ratio rising four points to 62% as compared to the average from England of three points to 51%. The big difference was at the bottom end of the

owner-occupied sector where affordability in London improved relatively to the rest of the country (Table 4.9). Even so, relatively few poorer households can afford owner-occupation and affordability has significantly worsened everywhere so the benefits are more apparently than real.

Table 4.9: Owner-occupation costs relative to lower quartile earnings by region

Region	2002/03	2006/07
London	0.70	1.06
South West	0.68	1.09
South East	0.67	1.08
Eastern	0.61	1.01
West Midlands	0.46	0.81
East Midlands	0.45	0.82
Yorkshire and the Humber	0.34	0.75
North West	0.32	0.71
North East	0.30	0.67
England	0.49	0.89

Source: Banks and Whitehead (2009)

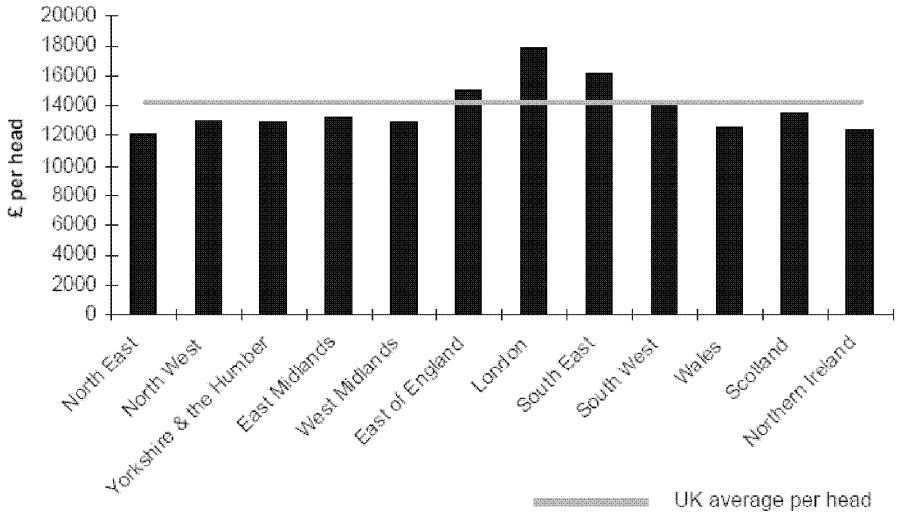
4.4 The Standard of Living in London

4.4.1 Household Incomes

The average private resident in London received some £23,500 income from all sources[16] in 2008, 42% above the national average (Richards and Roberts, 2009). After adjusting for direct taxes and benefits their average disposable income was reduced to some £18,000, just 26% above the UK average. Income per head on this measure was the highest of any region (Figure 4.5), although half of the standard sub-divisions of the rest of the GSE came close (within 2-6%).

[16] Formally, this represents the balance of primary incomes (covering income from employment, self-employment, and net property income)

Figure 4.5 Personal Disposable Incomes per Head by Region 2007



Source: ONS

The effect of the direct tax-benefit system is to reduce London households' margin of advantage over those in other regions by two-fifths. By contrast, in 1995 - when average primary incomes of Londoners were only 27% above the national average and their disposable income was 20% above it - the-tax benefit system served to reduce the margin by only a quarter. Though changing tax (and benefit) rates have had some effect, this basically reflects the impact of faster rising incomes in London – since tax payments are roughly proportionate to average income, while benefit payments are almost independent of it.

Over this period as a whole, average personal disposable incomes (at current prices) in London have grown by about 4.7% p.a., as compared with 4.3% p.a. nationally. Two qualifications have to be borne in mind, however. The first is (again) that comparisons in terms of simple averages always - but increasingly - exaggerate the levels of income enjoyed by the average Londoner relative to their counterpart elsewhere - and even more so for of those at the bottom end of the income distribution. The second is that all these comparisons are expressed in money terms, without adjustment for price differentials and changes.

In terms of the distribution of incomes around the mean, given the evidence on worklessness, it is entirely unsurprising that the proportion of the adult/over 16 population with incomes below the tax-paying bands is above the national average, while that in the lowest band is only just below. This does reflect the fact that Greater London includes only part of the functional London region, but includes the great bulk of many of its most disadvantaged groups. A more pertinent or less obvious comparison would be in terms of median personal incomes. Direct data on this is less readily available, since a translation has to be made from household to equivalised individual incomes. As a first approximation, however, we might assume the same relation between median and average incomes as was observed for earnings, i.e. that the differential between London and the rest of the UK is about one third lower at the median than at the mean. This would suggest that a figure for median personal disposable incomes in London around 17% above the UK figure.

4.4.2 Living Costs

The real standard of living of Londoners depends not only on relative money incomes, but also on the cost of living, which is clearly higher in London, and may have become increasingly so as the economy has grown. Quite how big the cost of living difference is remains unclear, both because of a lack of official estimates – the single full ONS calculation (Wingfield et al., 2005) is based on a mixture of 2000 and 2003 basic price data – and because of uncertainties about how differences in housing costs should be incorporated in these. The housing question is critical, because this is much the largest source of cost differentials, but also exposes the fact that relative living costs may be quite different for people occupying different positions, in terms of tenure and stage in housing career.

The ONS estimates have to be taken as a starting point, because they incorporate the only systematic evidence on regional variations in the cost of a full range of goods and services. In our judgement, however, their treatment of owner-occupied housing costs – based on actual payments for mortgages, plus maintenance etc – understates the real difference in the cost of housing services, for which we regard market differences in private rents as providing a better proxy. Estimates for 2001, with controls for differences in size/facilities, indicated that private sector rents in London were about 70% above the UK average (Richardson and Dolling, 2005) – though public sector rents were only about 28% higher. Applying the private rental differential to imputed rents of owner occupiers, and combining with the public rental differential suggests an overall average for housing service costs in London some 60% above the UK average. Time series data on the two sets of rents suggest that the London differential in each case narrowed somewhat after 2002, implying an overall cost difference in 2006-8 of around 55%, as compared with the 28.6% derived on the ONS methodology.

Incorporating the rental based estimate of housing cost differentials in the ONS regional cost index has the effect of raising the overall price premium for living in London from 9.7% to 12.1%[17] above the UK level.

4.4.3 Living Standards

Thus, for the average person in London, it appears that disposable incomes might be about 17% above the national average. This is not a large margin, considering the differences in levels of human capital. Taking account of the cost of living differential of, say, 12% the average person in London seems unlikely to be significantly better off than their counterparts elsewhere.

These figures are indicative averages. As important is the distribution. On the one hand, people who purchased their homes decades ago will have far below average expenditures. On the other hand, private tenants at the bottom end of the labour market in London, who need to pay a large proportion of their income in order to access the most basic accommodation, will be much more strongly affected by the differential in housing costs. Detailed analyses of housing affordability among households on lower quartile earnings suggests that for private tenants in London the rent/income ratio is around 60%, as against an average of

[17] This can be calculated from the relationship between the ONS overall estimate of 9.7 and their estimate excluding owner-occupation costs which is 7.1%; if the relevant cost differential were 1.9 (i.e. 55/28.6) times as great as expenditures on mortgages etc indicate this would add a further 2.4% on to the overall cost estimate.

50% across the country as a whole. For this money they are likely to be getting significantly less housing than elsewhere. The key point, however, is that the gap between overall living costs in London and elsewhere is much greater for them, simply because they are having to spend more of their limited income on the commodity which is so much more expensive in London. The combined effect of trends in rents and a continuing depression of wages at this end of the labour market has worsened their position somewhat since 2002 (Banks and Whitehead, 2009). For this group of low paid workers it is particularly likely that actual standards of living in London may be worse than for their peers elsewhere.

4.5 Conclusions

London is a city of high earnings, high prices, great inequality and unexpectedly high levels of worklessness. Economic dynamism during the boom years has substantially boosted average earnings, though the greatest gains have been at the very top, enhanced by the increased importance of bonuses.

For the average Londoner, represented roughly by the worker on median earnings, gains have been more modest and the margin of advantage in financial terms over the average person in other regions has been less than comparison of mean incomes would suggest. Nevertheless, there is a clear and significant differential.

In part this reflects the fact that the London population includes more people in groups who have been occupationally successful, whether because of prior qualifications, or progress within the London economy. Such people could expect to enjoy relatively high earnings in other regions too, but generally do significantly better in London, at least in financial terms. Whether this remains true when the higher cost of living in London is taken into account is less clear. But, over their careers many will have gained from time spent working in London, because of the significant boost this tends to provide, for qualified and/or ambitious young workers.

At the bottom of the earnings distribution, the London margin in earnings is smaller and has narrowed as a consequence of successive waves of immigrants having to find their first jobs within this segment of the labour market. Here, even basic accommodation in the private rented sector absorbs a larger fraction of incomes, so workers may well be no better off than in regions with lower nominal earnings.

Although recent growth in London employment has been accompanied by large scale international immigration the pressure of demand for labour in London has remained amongst the strongest in the UK. Despite this, levels of worklessness have shown a relative deterioration, and at the start of the current downturn were actually the highest of any official 'region' in the UK. In terms of formal unemployment the explanation is simply that inner London in particular houses many of the most vulnerable groups within the population of the Greater South East. This does not, however, entirely explain the high proportion of working age residents in recent years who say they do not want to work. A possible explanation for this is the depressing effect of mass immigration from poor countries which has lowered wage levels in the bottom segment of the labour market including many of the jobs that the inactive might otherwise have aspired to.

Chapter 5 Recent Developments

5.1 Introduction

In this chapter we focus on the shorter-term, cyclical aspects of change in the London economy and, consequently, on a period which is too recent to be documented in the more authoritative sets of regional and local data on which other chapters rely.

The key current issues mainly concern the progress and impacts of the global recession on the London economy, and what this implies about further short and long term developments in London's place within the UK economy. The natural period to be covered is therefore that since the onset of the credit crunch dating from the US sub-prime crisis and its British reflection in the failure of Northern Rock in late summer 2007. This was two years ago but, as was noted in last year's report, the translation of this crisis into recession was a slow-moving one, with clear evidence of impacts emerging only gradually, pushed on via several discrete shocks. The most significant of these, particularly for the London economy with its substantial financial core, came a year later with the collapse of Lehman Brothers in September 2008, inducing first a global banking crisis and then a massive bail-out of a number of leading banks, particularly based in London and New York.

A year later, both the London and the wider UK economies are in recession, though the impact on London (as in New York) have so far been less dramatic than was anticipated, even prior to the Lehman failure, and less severe than in several manufacturing regions. Whether this remains a matter of timing, with worse yet to come, or whether it reflects a localised impact of the bank bail-outs in giving particular protection to those parts of the financial sector whose commercial failings were at the root of the crisis remain to be seen.

Data sources to address such questions about the recent development of sub-national economies, or simply to monitor trends are limited. The last available GVA estimates for London relate to the year 2007, while the latest ABI-based employment estimates are for September 2007. The latest reliable earnings data (from ASHE) relates to April 2008. Even the statistically weaker 'short-term employment series' currently provides indications of change only up to the first quarter of 2009. On the supply-side of the London economy, the most recent population change and migration estimates cover the year to end-June 2008.

Reasonably up to date evidence from authoritative sources comes only from the 'headline' figures of the Quarterly Labour Force Survey and monthly administrative count of the claimant unemployed.

5.2 London's Place in an Evolving Recession

Our expectations, in last year's report (Gordon et al., 2008a), and through the following autumn (Gordon et al., 2008b), were that the imminent recession would hit London especially hard, for two reasons. The *first* was that, the 'new' London economy which emerged in the early-mid 1980s had proved to be much more volatile than the UK economy as a whole, through both upswings and down-swings.

This was certainly the case through the boom of the later 1980s, the recession of the early 1990s, the second boom of the late 1990s, and the more limited ups and downs of the years through to 2007. Statistically, the pattern was one whereby fluctuations in London employment and activity appeared to reflect those in the wider UK service economy, but with proportionate swings that were about 70% greater. This seemed to be an outcome of particular tendencies within this dynamic region to speculate on the continuance of boom conditions, reflected in sustained rises in house prices, capacity expansion and credit-financed consumption – until some event punctured the optimism and reversed the process. The structural conditions for a downturn existing since the turn of the century, but awaiting a trigger event – in terms of over-extended personal credit and inflated house prices – appeared particularly conspicuous in the London region.

The *second* more particular reason for expecting London to do especially badly was because of the anticipation that the wholesale finance sector, whose weaknesses had triggered the downturn, would itself suffer the sharpest contraction in activity. This was encouraged by the early announcements (cited in last year's reports) of substantial job cuts in major London-based financial institutions, the sharp shrinkage of mergers and acquisitions activity, together with a collapse of faith in the sophisticated, highly geared products developed by the most well-regarded financial professionals during the boom.

Experience so far in this recession has clearly been at odds with these expectations. The most conspicuous early casualties of the collapse in demand in the UK as elsewhere have actually been in the automotive sector – and the regions dominated by this - rather than in financial, or other, services centres. And, the one key indicator of local economic performance, the monthly count of unemployment benefit claimants, pointed to a marked concentration of suffering in the industrial regions of the West Midlands and the north of England, with the south escaping relatively lightly. In this respect, the geography of the present downturn has looked rather more like the traditional pattern of the 1950s-70s – when impacts were concentrated on production of capital goods and consumer durables – rather than that of the 1990s which seemed to set a new post-industrial model, focused on personal consumption, service activities and the Greater South East. Similar observations have been made in the US, where New York City, which was also expected to fare badly, has seen unemployment grow much less rapidly than elsewhere (Glaeser, 2009), while employment across the metro region as a whole has simply followed national trends - with a very much lower rate of job loss than in the auto-industry centre of Detroit.

This recession may have quite a way still to run, and has already been through several distinct phases, the last of which has not fully worked its way through into recorded outcomes. These phases, have each had uneven, but quite distinct, sectoral effects, that could be expected to have different spatial consequences for cities/regions with different patterns of economic specialisation. The delayed availability of sub-national statistics means that we do not have a clear idea of the pattern that the recession is currently taking, nor do we have a sound basis on which to forecast its future trend.

The initial sub-prime crisis, nearly two years ago now, produced almost immediate reactions in the housing market, since mortgage finance was at the heart both of

original events in the US and their ramifications for British banks and building societies. There was both a sharp down-turn in new private house-building and in the volume of transactions, with knock-on effects on those home-related expenditures normally stimulated by residential moves. Availability of commercial credit also became a progressive problem for businesses seeking expansion, carrying high levels of stocks, or dependent on credit-financed purchases. At this stage household incomes were not substantially affected, though borrowing for purchase of major durables, notably cars, became much harder.

A second set of shocks arrived during late 2007/early 2008, in the form of sharp (though, as it proved, temporary) increases in global prices of a number of commodities, notably fuels and foodstuffs. This depressed real personal incomes in the short term, and substantially raised producer costs in a number of production industries. These developments, combined with the accumulating impacts of the credit-crunch, led to both clear cutbacks in consumer expenditure on durable, postponable, items, and a sharp move towards destocking of manufactured goods and intermediate products. This represented a very different pattern of events from the early 1990s recession. In part this reflects the fact that this is a global downturn, rather than one with its origins in the UK, and therefore had a much sharper impact on the traded goods sectors. The visible outcome in terms of economic activity was a marked downturn in the output of UK production industries from spring 2008, notably in activities related to the motor industry and household durable goods, as well as in distribution. The impact was naturally greater in regions with larger manufacturing sectors, and least in London with its minimal involvement in manufacturing. In employment terms, however, the immediate effects of production cutbacks were a lot less than might have been expected (Myers, 2009), whether because of normal lags in labour force adjustment, or because destocking could be expected to have only temporary effects on required output. In most service activities, both private and public (apart from distribution/freight and air transport), output and employment levels were stable rather than falling before autumn 2008.

The third shock, arriving in September 2008, was the failure of Lehman Brothers. This might be seen as the culmination of a process of gradual discovery through the preceding 12 months of the scale and ramifications of financial losses linked back to large scale risky lending in the US housing market, and the creation of 'structured assets' secured on these bad loans. The Lehman episode finally drove home the extent to which mainstream financial institutions were caught up in this, drastically reducing their willingness to lend to each other even on a short-term basis. This threatened the normal operations of the global financial system, and indicated (at least temporarily) that governments would not necessarily provide cover against failure for even very large banks. It was only about a year into the crisis that UK consumer confidence and borrowing turned down (Anagboso, 2009). Impacts then appear for the first time in output levels of key private sector services, including financial and business services, catering and transport – as well as in the overall index of services. This is the first point at which the London economy would be expected to be particularly vulnerable, though it is late on in relation to the periods over which data are available to indicate potential downturn effects.

There may be further surprises to come. It is possible that the massive 'bail-out' of the banks, though intended to underwrite their balance sheets rather than to

subsidise trading (as with past 'lame duck' industries) may turn out to have provided some effective protection during this recession, not only for the 'wholesale' financial service sector itself, but for the wider economy, particularly in London. It is thus important to focus on what is happening to the London economy during the second year of the crisis, despite the particular limitations of data relating to this phase.

5.3 Employment

Short term employment estimates indicate that that employee numbers in London (seasonally adjusted) continued to rise until spring 2008, as in the country as a whole. Over the next three months they fell by some 75,000 (1.8%), again closely paralleling changes at UK level. Percentage job losses over this period were only about half those in the two Midland regions, and about two thirds those in Yorkshire/Humberside and Wales.

There is evidence of some off-setting effect, through a net increase in London self-employment, amounting to around 13,000 jobs since the first quarter of 2008. In the circumstances of recession, however, there must be questions about how much income the newly self-employed were actually generating.

Between the first quarters of 2008 and 2009, about half the employee job losses were in the business services sector (outside finance). In proportionate terms, however, it was finance (excluding pensions/insurance) and air transport, which suffered most, with falls of 8% and 11% respectively. Employee numbers also shrank in manufacturing, though by no more than in an average year. There were substantial job losses in consumer services, counter-balanced by continuing growth in public services and construction, but the proportionate reduction was small, except in wholesaling (Table 5.1).

Analysis of the pattern of change by industrial sector and across regions suggests that contraction was a national phenomenon, with some sectors generally faring worse than others, but no regions tending to do consistently better or worse than others. In terms of employment change, over the period for which these regular data are presently available, there was not any real evidence of a particular London dimension to the recession.

Table 5.1 Estimated Employment Changes between 1st quarters of 2008 and 2009

	London		UK	
	000s	**%**	**000s**	**%**
Manufacturing	-8	-5%	-195	-7%
Construction	+5	4%	+6	0%
Other Production	+3	20%	+1	0%
Finance	-19	-6%	-51	-5%
Other Business Services	-36	-3%	-193	-4%
Air Transport	-5	-11%	-13	-15%
Other Transport, Communications and Wholesale Distribution	-14	-3%	-82	-3%
Motor Trade	-1	-2%	-34	-6%
Other Retail Distribution + Hotels/catering	-9	-1%	-106	-2%
Other consumer services	+1	0%	-2	0%
Public services	+13	1%	+124	2%
TOTAL EMPLOYEES	-70	-2%	-544	-2%
Self Employed	+13	2%	+32	1%
Government-supported trainees	+4	91%	+20	40%
TOTAL CIVILIAN WORKFORCE	-53	-2%	-479	-1%

Source: NOMIS

Note: data on trainees and self-employed relate only to Great Britain.

From sample survey sources covering more recent months, there is, however, some evidence that this pattern changed at the end of 2008. Quarterly Labour Force survey estimates of the number of London *residents* in employment show this peaking between November 2008 and January 2009, some 8 months after national employment started to turn down. Between then and the March-May quarter the number of Londoners in work appears to have fallen by 95,000 (a quarter of the national contraction over this period). Job losses among residents of London's neighbouring regions (i.e. the East and South East) also accelerated over these months, with a combined further loss of 83,000 jobs. This will include a significant number of people who had previously commuted into central London jobs. With a further fall of 50,000 among residents of the South West, it seems that the focus of contraction has eventually switched to the south - and most conspicuously to London.

London job losses so far have been heavily concentrated among full-time workers, although - against the trend elsewhere - the rate of reduction has been a bit higher for female than male workers, -2.0% against -1.4%.

5.4 Worklessness

The numbers unemployed in London (based on the standard ILO definition, including all those actively seeking work) have increased by about 50% since late summer 2007. On a seasonally adjusted basis, Labour Force Survey estimates for the working age population show the total rising from some 235,000 in July-September 2007 to 343,000 in March-May 2009. The upward trend has been fairly continuous over this period, starting long before there was any evidence of reductions in London employment. In proportionate terms the increase in London has been similar to that in the country as a whole, with a similar acceleration since the end of 2008 (Table 5.2). London's unemployment rate remains well above the national average, although still below that in the North East, and now also below Yorkshire/Humber and especially the West Midlands.

Before the onset of this recession, a large proportion of the workless, particularly in London, were classed as economically inactive rather than unemployed, because they reported themselves as not actively looking for work. Within the working age population, this category includes many people with clear reasons not to be engaging with the labour market, including substantial numbers of students, long term sick and others committed to caring roles – but also others who might be regarded as hidden unemployed. Through the early stages of this downturn, the numbers of working age Londoners in this inactive category actually fell significantly, despite the upturn in unemployment. This was also the case nationally, though a larger fall in London meant that the proportion in work among this population group continued to increase. Since the end of last year, however, as total employment levels turned down more sharply, rates of inactivity have increased - especially in London, where this has substantially exceeded the growth in measured unemployment (Table 5.2).

Table 5.2 Worklessness Trends London and UK

	London		UK	
	000s	**%**	**000s**	**%**
ILO Unemployed				
July-Sept09	235	6.2%	1619	5.5%
Nov08-Jan09	300	7.6%	1997	6.6%
Mar-May09	343	8.8%	2348	7.8%
Economically Inactive				
July-Sept09	1238	24.6%	7941	21.1%
Nov08-Jan09	1139	22.4%	7797	20.6%
Mar-May09	1216	23.8%	7915	20.9%

Source: Labour Force Survey Headline Indicators, via NOMIS

Notes: 1. data are seasonally adjusted and relate to working age residents only; 2. The base for percentages is the number in this population group.

In terms of overall worklessness then, the picture is that while London was actually rather protected from the impact of the downturn in its early phases (when the auto-industry segment of manufacturing was especially affected), this ceased to be the case as the overall economy moved into recession. Recent falls in the employment

rate among working age residents have been sharper in London than elsewhere, though the greater part of this has taken the form, not of an especially large rise in unemployment, but of renewed growth in numbers of inactive non-job-seekers.

Slightly more up-to-date counts of the unemployed are available on the more restricted claimant count basis, covering only those with an entitlement to benefit. These show a rather different picture. On this basis also, London unemployment is recorded as having gone up by around 50% since autumn 2007. But the recorded increases are proportionately higher elsewhere in the country and the difference between London and national unemployment rates continued to close through to January of this year, when the London rate actually fell below the UK average for a short while (Table 5.3).

Table 5.3 Claimant Count Unemployment Rates: London and UK

	London	UK
September 2007	2.8%	2.2%
January 2009	3.3%	3.4%
June 2009	4.2%	4.1%

Source: NOMIS
Notes: the base for these rates is the resident working-age population

On this measure, London stands out from all other regions in the slow growth in the number of unemployment benefit claimants, for reasons which do not in fact reflect much more favourable employment trends in the city. For whatever reason, the growth in London's workless population through the early stages of this recession has been more heavily weighted than elsewhere toward the inactive/non-searching group and least heavily represented among unemployment benefit claimants. Moreover, in London, in contrast to other regions, the majority of those added to the job-seeking unemployed (on an ILO definition) between the first quarters of 2008 and 2009 did not receive benefit. There are some plausible but partial explanations for the lower incidence of benefit claims in London, including a higher proportion of well-qualified people from senior white-collar jobs among the unemployed, together with a larger migrant population, and more individuals with short durations of worklessness – all factors associated with lower rates of claiming. However, in the first quarter of 2009, at least, there are currently unexplained factors depressing the incidence of benefit claiming among the London unemployed by about a third, as compared with other regions.

5.5 Sectoral Trends and Developments

5.5.1 Construction and the Housing Market

The construction industry was amongst those most directly and immediately affected by the credit crunch, not only because of the normal cyclical sensitivity of demand for new buildings, but also because of the central role of mortgage finance in the genesis of the crisis. A contraction in private housing starts was evident from the first quarter of 2008, when they were down by about 25% across the country on the level a year earlier. They had fallen a further 50% or so by the start of this year, though showing a partial recovery in the second quarter. In London the level of activity held up better, with a reduction of only 20% or so, while the overall level of housing activity was held up further by the relatively greater importance

there of the social housing sector where activity levels were maintained (both generally and especially in London).

In output terms, activity in the sector nationally peaked in the middle of 2008, with a fall of some 17% reported between the 2nd quarters of 2008 and 2009. In London, however, the fall was only 10%, largely because of the smaller fall in housing work, both new construction (down 15% as compared with 32% nationally) and repairs/maintenance (up 2% rather than down 10%).

Focusing on the housing market as the most significant influence in London, there have been direct impacts over the last two years from both the credit crunch and the subsequent recession, via its effects on incomes and employment. The immediate effect was a massive reduction in the financial institutions' capacity to lend. Particularly important for the first-time buyer market is that very few lenders have been prepared to lend above 90% of valuation and many are now requiring deposits of up to 25%. Equally there is very limited funding, on tighter terms, available for Buy to Let investment.

The second major impact was on developer capacity, with firms unable to fund their investment through borrowing and facing very large scale reductions in asset values. Linked to this has been a sudden fall off in pre-completion sales to Buy-to-Let purchasers which adversely affect both developers' preparedness and capacity to maintain the pipeline.

These immediate impacts have been reinforced both by the worsening of the real economy and by lack of confidence in the housing market, notably reflected in fears that house prices would fall further. The result was steep reductions in prices, sales and investment.

During 2009 there have been significant signs of improvement, if from a very low base. However because the situation is changing so fast much of the evidence remains anecdotal. Statistics can be behind the times and may not be London-specific. Moreover the picture is patchy with some indicators improving and others worsening.

First, the impact of the credit crunch appears to be softening. Nationally gross mortgage advances for housing measured in value terms reached a low point in May 2009 and have now started to increase very slowly. Within this total Buy to Let gross advances have continued to fall but the rate of decline has slackened (Council of Mortgage Lenders 2009).

The number of residential transactions has followed a fairly similar pattern: transactions more than halved between the last quarter of 2007 and the first quarter of 2009 but then picked up again quite sharply (DCLG, 2009a).

Land Registry figures on sales suggest that London has followed exactly the same pattern as the rest of the country but suffered somewhat more in terms of transactions. Before the major downturn transactions were roughly proportionate at 14% of the England total. However in April 2009 as numbers started to increase transactions in London were considerably lower at 11%. (Land Registry, 2009).

The Royal Institution of Chartered Surveyors survey suggests that new instructions, and new enquiries, started to increase in late 2008 while sales have risen throughout 2009. While the turning points are similar across the country much of the overall buoyancy is concentrated in London and the South (RICS, 2009a).

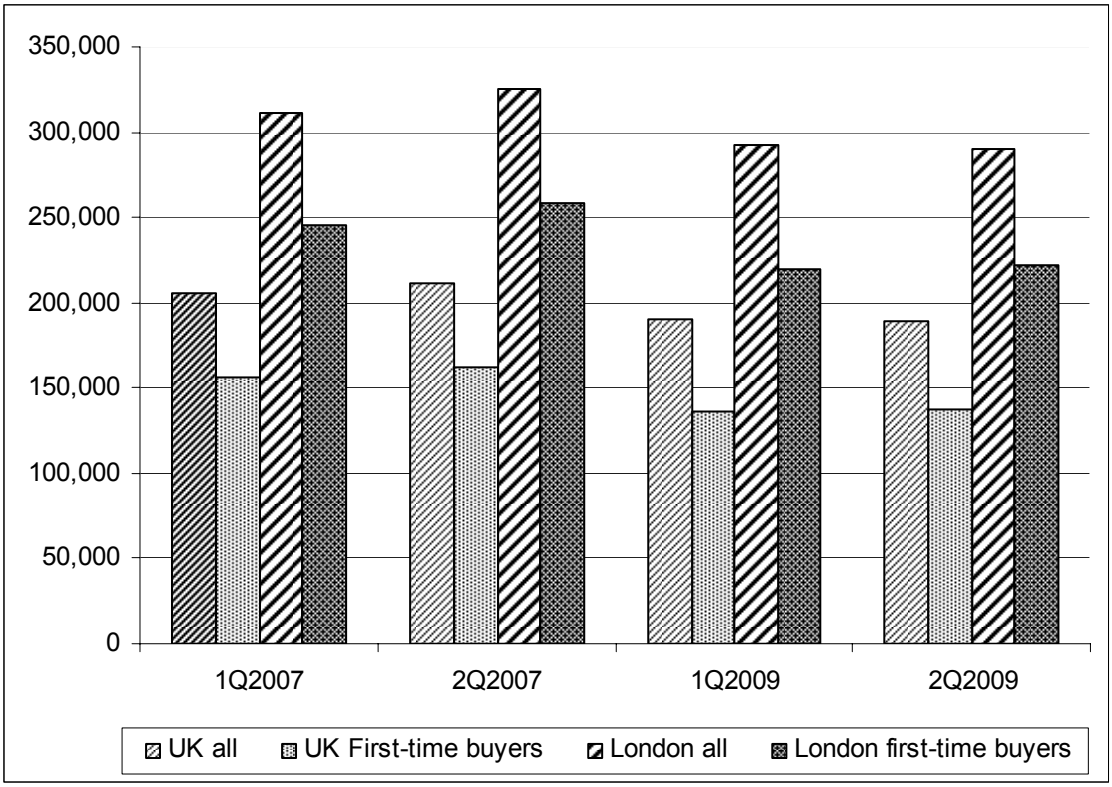
The pattern with respect to residential lettings is different. Last year, the RICS lettings survey was still showing increased activity. However the market turned negative in October 2008 with a majority of surveyors seeing falling rents and expecting further falls, against a picture of increasing new instructions. As of July 2009 surveyors continued to see falls in rent levels; a smaller majority also forecast declines in gross yields. While the rental expectations picture improved slightly in the second quarter of 2009, there were fewer new landlord instructions (RICS 2009b).

The picture with respect to housing investment has been worse in London than in the country as a whole but is now improving quite rapidly. At their height, housing starts in London were running at over 25,000 p.a. in mid 2006 (based on 12 month rolling totals) and fell to around 17,000 in the second half of 2008, with only around 3,000 starts in the final quarter. This was a drop of almost 60% on the same quarter two years before. Thereafter starts began to increase year on year. Indeed in the private sector starts were higher in the second quarter of 2009 than they had been at any second quarter this century. These figures give the first suggestions that developers in London see it as worthwhile to move back into the market.

London's experience is very different from that for the UK as a whole. The fall in starts in London was initially very much more rapid but the lowest year-on-year total was 17,000 a decline from the peak of only around 35% as compared to a decline of over 50% in the country overall. Moreover on England-wide evidence there is as yet no real signs of improvement – except that the rate of decline has slowed (DCLG, 2009b).

The pattern of house price change has been extraordinarily consistent across regions. In both London and the UK the peak in average house prices was in the first quarter of 2008. At that point London's average house prices were over 55% higher than for the country as a whole. Since that peak, prices have fallen by some 13% across the UK as a whole and by 15% in London. Even so, London's average prices are still over 150% of the national average (Figure 5.1) (DCLG, 2009,c)

Figure 5.1: House Prices (£000s)



Source: DCLG Table 508
Note: These figures are adjusted for the changing mix of dwellings sold in each region.

Finally it is worth looking at the RICS housing market survey which reflects both how surveyors' experience has shifted during 2009 and their understanding of the current market situation. At the national level an increasing but still small proportion of surveyors are observing rising prices and fewer than one in four are continuing to observe falls. As a result only 8% more surveyors were predicting future falls than are expecting rises in July (Table 5.4). The trough was reached in October 2008 when the figure was 93% in terms of actual experience and 81% in terms of expectations. The picture in London was only slightly more cheerful at the trough last year but has become far more positive as 2009 has progressed. The balance became positive in June 2009 when 11% more surveyors had experienced rises than falls while by July nearly one third more surveyors are now expecting house price rises than falls.

Table 5.4 The balance between positive and negative expectations

	2008				2009						
London	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July
Balance of reported price changes over last 3 months	-83	-92	-87	-89	-74	-57	-32	-9	-5	+11	+29
Balance of price expectations	-83	-78	-75	-74	-75	-66	-45	-25	-14	+6	+31
UK											
Balance of Reported changes over last 3 months	-91	-93	-89	-84	-77	-67	-59	-43	-36	-15	-9
Balance of price expectations	-84.5	-81.0	-76.5	-73.0	-76.6	-77.2	-72.2	-56.4	-43.0	-17.6	-8.1

Source: RICS Housing Market Survey UK, July 2009

Overall it is clear that London went through a worse period than the country as a whole but the strength of decline – both in terms of output and prices – lasted for a shorter period. Most indicators, except that for the private rented sector which remained buoyant until late 2008, now suggest that the market is improving and will continue to do so, unless and until there is a further negative shock.

5.5.2 Retailing and Tourism

Across London as a whole, retail employment appears to have fallen modestly between the first quarters of 2008 and 2009, and at a slightly slower rate than nationally (-1.5% compared with -2.6%). For Central London, however, there is evidence of a more favourable trend in the retail sector, at least in terms of (like-for-like) sales, with reported growth of 3.9% between the second quarters of these two years, as compared with 1.7% at UK level. This was attributed principally to growth in tourists from Western Europe, attracted by the weakness of sterling against the euro (BRC-KPMG, 2009).

Overall tourist trends have, however, been less positive. For 2008 as a whole, though overseas visitor nights in London were marginally up, visitor expenditure was down by 1%, against a national growth of 2%. This reflected a fall in North American visitors, who have been particularly important in London (ONS, 2009a), but whose numbers have continued to fall in early 2009 as the recession there also has deepened. The reduction in their spending was very largely offset by the growth in that from EU visitors (from both western and central/eastern Europe).

5.5.3 Financial and Business Services

These two sectors were expected to be at the heart of the downturn in the economy, given the role of financial services in the origin of the crisis and the near bankruptcy of major banks. However, though large planned redundancies were noted in last year's report (even prior to Lehmans' failure), employment even in finance has held up rather better than was anticipated.

In finance, employment started falling after the first quarter of 2008, with a net reduction of some 50,000 nationally, representing 5% of jobs in the sector. This was one of the faster rates of contraction over this year – though behind both

manufacturing and distribution. But this accounted for only a tenth of the total job losses, and about a quarter as many as occurred in manufacturing. London on its own shed some 19,000 jobs in the sector over the year, representing just 6% of its employment. Jobs in the insurance/pensions sub-sector went largely unscathed, in contrast to an 8% job loss across other financial service activities. This is, however, still a remarkably modest contraction for a sector that appeared to be on the verge of failure, and clearly reflects the massive support provided by government finance at this time, keeping banks in operation through the crisis without need for too radical restructuring and rationalisation. Incomes however have shrunk more than employment, with the temporary suspension or reduction in the size of bonuses, on a scale not yet ascertainable from published statistics.

Elsewhere in business services there have also been net job losses, which though representing a smaller proportion of the workforce, were larger in absolute terms. In London, between the first quarters of 2008 and 2009 these amounted to some 36,000 jobs, representing some 3% of the total. This was actually a slower rate of contraction than across the country as a whole (where it averaged 4%), suggesting that these cannot be attributed primarily to close linkages with wholesale financial services in London. Indeed for some parts of business services (including accountants, lawyers and consultants), the financial crisis will clearly have generated new demands, offsetting job losses in activities tied to retailing or manufacturing activities where business has actually been harder hit.

5.5.4 Public services

The downturn has been slower to affect public service activities than the private sector, both because the former are less dependent on consumer confidence, trade opportunities and commercial credit, and because of the government's strategy to seek to sustain demand. This situation is clearly starting to change, as public bodies face the prospect of budgetary cutbacks, but up to the first quarter of 2009 at least public service employment in London was actually showing some growth, albeit slightly slower than across the country as a whole (Table 5.1). The public sector in London is no longer, however, a special source of stability in the London economy since, with the dispersal of much central government/agency work away from London since the 1980s, it is no longer over-represented within the London employment base.

The great bulk of public service activity in London is oriented to serving the city's own needs, though there are specialist elements within the health service and within the university sector which actually serve international markets as well as meeting nation-wide needs. The international component in these may well be sensitive to the impact of the recession elsewhere, as well as the depreciation of the dollar, and the tightening of UK immigration controls. In addition, there is still a significant element of national UK administration concentrated in London, where numbers can be expected to be sensitive to UK government location policies seeking to relocate activity away from London and the South East to areas with lower costs and greater employment needs.

Numbers in London were expected to be significantly reduced, following the 2004 Lyons review recommendation for 20,000 government jobs to be moved out of London and the South East by 2010. The Chancellor's latest Budget statement indicated that this target was close to being met but the number of jobs moved has

been modest (2,000 in the second half of 2008) and with a very modest net impact on either the number of civil servants in London or its share of the national total.

5.6 Migration and Population

Only very partial or indirect evidence is available about population trends affecting London since the onset of the recession. Recent data are available on births and deaths only, but neither is very sensitive to economic conditions, nor do they have immediate bearing on performance of the London economy. The crucial factors in this regard are migration flows, both to and from overseas and to and from other parts of the UK. As far as international flows are concerned, full data (the so-called Total International Migration, or TIM, series) are only available up to the end of 2007.

There are, however, partial and provisional data for the UK as a whole covering the year up to December 2008, which have some implications for London, given its pre-eminence as a destination for international migrants (ONS, 2009c). These show little change in rates of inflow as compared with the year before, but a clear increase in rates of outward migration by foreign nationals, mostly accounted for by a more than doubling of the rate of return by nationals from the 2004 EU A8 accession countries of eastern and central Europe – presumably in reaction to the downturn The implications of this for London are likely to have been less than would be the case for other groups of migrants, since those from A8 countries have been less highly concentrated in London than people from other international origins. The effect on London population growth should nevertheless have been somewhat negative.

On the other hand, there is direct evidence in this 12 month period of a slowing in the net outflow from London to other parts of the UK, by some 25,000 - substantially outweighing any likely A8 effect. This is predominantly because of a slowing of the rate of outflow to London's two neighbouring regions within the Greater South East (Hollis, 2009). Since this outflow is very largely housing-related, often involving people in search of larger or better properties, or simply affordable owner-occupation, this relates to the difficulties in completing transactions in current financial circumstances as well as the downturn in effective demand for private housing, in the context of diminished expectations. There is as yet no evidence on when and whether this slowdown will be reversed.

5.7 Conclusions

For reasons not anticipated, London – like its US counterpart New York - has come through the credit crunch phase of the downturn in better shape than was expected, doing no more than to parallel national trends in terms of job losses. In part this seems to have been because of the important role of de-stocking during this phase, with sharp but mostly temporary effect on manufacturing.

Subsequent developments, as the recession evolved, have had a more significant impact on London, with sharper declines in employment and increases in non-participation in the labour market. However there have not yet been massive job losses in the services sector, and London's construction sector is showing tentative signs of improvement. The housing market has turned up and expectations are more positive than elsewhere. However these positive factors relate to an extent to the support given to the city's business core by the bank bail-outs and quantitative easing conducted by the Bank of England.

Chapter 6 Outer London's Place in the London Economy

6.1 Introduction

Outer London is in some ways the unknown face of the London economy, less extensively studied than either central London's advanced services sectors or the areas of concentrated deprivation elsewhere in Inner London, and given much less attention so far in the strategies of the Greater London Authority. The implicit assumptions of much discussion of the London economy are: *first* that its distinctive elements are concentrated in the inner areas; and *secondly* that the outer boroughs serve primarily as residential areas, housing commuters who work in the central business district, and with an economy largely devoted to servicing their needs on a local basis.

There is an element of truth in both of these stereotypes. In terms of the make up of its economy and population, Outer London is much closer to the national average than is Inner London, or most of its component parts. And, a substantial proportion of Outer London residents do work elsewhere – though not all in central London – with the consequence that locally oriented services, both public and private, form a larger proportion of its own employment base, than in Inner London. But it is also true that it has an important economy of its own – with as many jobs as any UK city outside London – including substantial businesses competing in both national and international markets, whose performance is a matter of national significance.

Under its second Mayor, a Conservative, Boris Johnson, elected in 2008, the Greater London Authority is currently seeking to give more attention to developments in this part of the city. This is being done in part through an Outer London Commission (OLC), which has been given responsibility to advise on possible ways of enhancing its economic performance, in relation to the current round of GLA spatial, economic and transport Strategy revision (OLC, 2009). This increased attention undoubtedly reflects concerns articulated by the large number of Outer London Conservative voters during the 2008 election campaign, as well as opinion poll evidence of greater dissatisfaction among Outer London residents about their areas (Ipsos-MORI, 2008), and criticism of the limited attention to 'the suburbs' in previous versions of the London Plan, coming from London Assembly members and at their Examinations in Public. Over the last couple of years, a more specific concern with apparent stagnation of the Outer London economy (at least in terms of employment trends), relative to its more dynamic neighbours, both nearer the centre and in the OMA, had been voiced by various of the sub-regional borough 'alliances' (see e.g. Gordon, 2007).

This is a rather new concern, representing a major shift since the 1970s and early 1980s when worries about employment trends in London were very largely focused on job losses across the Inner London economy (notably in goods production and distribution activities). Outer London was seen as relatively healthy in economic terms, as well as in the prosperity of a more middle-class resident population (Buck et al., 1986). This pattern has been disturbed over the past 25 years not only by the rapid growth of business service employment in the core areas, but also by the impact of gentrification on the social mix of many Inner London boroughs, the near disappearance from these areas of employment in goods-related sectors, and the spread of congestion, in its various forms, into and across much of Outer London.

Although social deprivation remains much more heavily concentrated in Inner London (notably in parts of the inner east), this combination of processes, together with the growth of a much more diverse outer London population, has raised questions as to whether Outer London may not now require some of the sorts of structural intervention previously focused on Inner London problems.

These policy concerns intersect with issues about governance. A perception that, as a city-wide administration, the GLA – like its predecessors – has paid too much attention to the better–represented economic and political interests of 'zone 1', reinforces a view that the interests of Outer Londoners would be better-served by giving more autonomy back to the boroughs. But, on the other hand, the perceived economic/transport problems of outer London do not appear to be of a kind that could be effectively addressed on an independent basis by 19 or 20 boroughs[18].

6.2 Structure of Outer London Economy

In 2008 there were, according to the Labour Force Survey, a total of some 1.6 million people (employed and self-employed) working in Outer London, representing 38% of the London total. This is slightly more than in Central London, and significantly more than in Greater Manchester, or any other UK conurbation. In terms of sheer scale, this is obviously an important element in the national economy.

The broad profile of current Outer London employment (presented in Table 6.1) confirms that it is much closer to the national average (or that for ROSE) than to that for Inner London. The distinctive features of Inner London are a much stronger representation in Information and communication services, finance and professional/scientific technical services – counterbalanced by much smaller proportions in manufacturing, distribution, education and health. None of these apply to Outer London, though its proportion of jobs in manufacturing, while much higher than in the inner areas, is still below both the national and ROSE averages. Otherwise the only very clear differences between Outer London and the UK (or ROSE) pattern is its much higher proportion of jobs in transport and storage.

Finance seems to be notably under-represented in Outer London, and information and communication somewhat over-represented. This reflects different patterns of specialisation within office-based producer services: in finance Central London appears to cast a distinct 'shadow' across the outer areas; whereas in information and communication *some* of Central London's strength seems to be shared across a much broader region (including both Outer London and ROSE). Meanwhile the proportion of jobs in health is somewhat lower than outside London, while that in education is rather higher. This reflects Outer London's particular age and family

[18] The precise number of 'outer' boroughs depends on which of two alternative definitions are used, both going back to the days of the GLC. At that time two overlapping distinctions were used: one, in terms of Inner/Outer boroughs, corresponding with that between areas which were (or not) included within the old London County Council, but also associated with differences in economic structure; the other, in terms of A/B boroughs, associated primarily with differences in demographic/housing characteristics. Currently, the GLA Plan Team (and the Mayor's Outer London commission) use the traditional Inner/Outer distinction, while national statistics (and the joint GLA/ONS *Focus on London* define these areas in terms of the old Group A/B distinction. The former includes Haringey and Newham in Outer London, while excluding Greenwich; the latter does the reverse. For consistency with national statistical sources providing no finer (borough) breakdown, we generally use the second (ONS/Group B) definition of Outer London.

structure, with more children and fewer old people, as compared with the national norm, implying proportionately larger needs for education and lower ones for health services.

Table 6.1: Broad Employment Structure of Outer London Compared with Inner London, ROSE and UK

	OUTER LONDON	Inner London	Rest of South East (ROSE)	UK
Manufacturing	5.7%	2.2%	8.9%	9.8%
Construction	8.7%	7.3%	8.9%	8.5%
Distribution	15.1%	7.8%	14.8%	14.1%
Transport/storage	9.9%	4.7%	5.2%	5.4%
Accommodation/food services	4.1%	4.0%	4.1%	4.6%
Information/communication	4.7%	7.6%	4.7%	3.6%
Finance	2.5%	13.0%	3.6%	4.2%
Professional, Scientific, technical services	6.1%	13.6%	7.0%	6.3%
Administrative/support services	4.3%	5.2%	5.0%	4.5%
Public administration/defence	7.3%	8.1%	5.9%	6.9%
Education	12.1%	7.6%	10.8%	10.0%
Health	11.3%	9.5%	12.0%	12.9%
Arts, entertainment, recreation	3.0%	3.5%	2.5%	2.5%
Other services	2.6%	2.9%	2.6%	2.6%
Other	2.6%	3.0%	4.0%	4.1%
TOTAL	100%	100%	100%	100%

Source: Quarterly Labour Force Survey January-March 2009

Notes: 1. the classification is in terms of sections of the 2007 Standard Industrial Classification; 2 numbers relate to individuals' main jobs only, classified by place of work (not residence); 3. the 'other category includes, agriculture/forestry/fishing, mining/quarrying, water/sewerage/waste, real estate, households, and extraterritorial organisations; 4. ROSE includes the non-London part of the (old) South East statistical region, covering the present South East (Government Office) region and the southern half of the Eastern GO region.

A closer look at the pattern of specialisation, pinpoints some more specific activities where Outer London has substantially more employment than might be expected (Table 6.2). The most notable of these is the cluster of air transport, support and cargo handling activities in and around Heathrow airport, directly contributing some 60,000 jobs, almost half of the UK total in these activities. Some part of the 50,000 Outer London jobs in taxis, rail and urban transport also appear to be airport-linked, though the rest reflects particular ways in which mobility needs of local residents/workers are met in this extended suburban region.

Apart from these transport-based activities, the most conspicuous group of specialisations within Outer London involve a cluster of informational and creative activities, spanning publishing, film/TV, advertising/market research and

design/photography. Together these employ some 65,000 workers – concentrated in west and south London.

Outside these broad clusters, three areas of manufacturing are still strongly represented in Outer London: 'other' food products (in Brent/Ealing where they may be linked to specialities of the South Asian population); basic pharmaceuticals; and computer manufacture.

Other fields of apparent strength are: sale of motor vehicle parts; security and investigation (reflecting the proximity of Heathrow); administration of social security and social services; and gambling and betting.

Together, these sectors account for about a quarter of a million jobs, about 15% of the Outer London total. This relatively small proportion indicates that the Outer London economy as a whole is rather unspecialised. Another notable feature suggested by Table 6.2, is that the more substantial sectoral clusters are all to be found in the southern and western quadrants of Outer London. In the north and east sub-regions, it appears particularly true that employment is not very specialised, combining representation of a fairly wide range of activities at some scale, with a variety of small scale local or firm level specialisations.

Table 6.2 Some Sectoral Specialisations within the Outer London Economy

	Employment (000s)	% of total UK employment in sector	Main areas of concentration
Other food products	6	8%	Brent/Ealing
Basic pharmaceuticals	6	11%	
Manufacture of Computer Equipment	6	11%	
Air Transport services and support, cargo handling	61	45%	Hillingdon
Taxis, rail and urban transport	50	11%	Croydon, Hillingdon, Hounslow
Sale of motor vehicle parts/accessories	9	13%	
Publishing	15	8%	Croydon, Richmond, Sutton
Film, video, TV and sound recording, programming and broadcast	18	12%	Hounslow
Advertising, market research	15	10%	Hounslow / Richmond
Design, photography, translation	16	9%	
Security, investigation	14	8%	Hillingdon /Hounslow
Compulsory social security, regulation of social services	27	8%	
Gambling, betting	14	16%	Harrow / Merton

Source: numbers, as for Table 6.1; main locations ABI data for 2007

Notes: 1. See notes 1 and 2 to Table 6.1; 2. Selection of activities for inclusion in this table is based on two basic criteria – applied at one or more levels of SIC disaggregation – a share of employment across Outer London at least 40% above that for the UK as a whole and at least 6 thousand jobs in the area; 4. a number of specialised activities serving local consumer s have been excluded, where these simply reflect a distinctive pattern of consumer demand or a different way of delivering a service – these included (inter alia) several specialised retailing categories, pre-primary education, driving schools, and domestic service.

In terms of market orientation, a larger proportion of economic activity in Outer London involves serving local consumer markets. Within the private sector, evidence from the last (2007) round of the London Development Agency's LABS survey shows that about 42% of sales of Outer London businesses were to customers within the local borough, compared with just 31% in Inner London (Table 6.3). This pattern partly reflects that of sectoral specialisation, but within several sectors, notably finance and catering/hotels, sales are much more locally oriented in Outer London. The reverse is the case for manufacturing, which only seems to survive at all in Inner London on the basis of local markets. Overall there was no difference in the degree to which firms in Outer/Inner London were oriented toward supplying local

businesses; the difference was wholly in respect of sales to local consumers, which accounted for almost twice as large a share of sales in Outer London (25% compared with 14% in Inner London). This bias toward local markets was particularly evident in the eastern and northern sectors of Outer London.

Table 6.3: Proportion of Business Sales to Markets by Location

	Outer London	Inner London
Within local borough	**42%**	**31%**
Elsewhere in Greater London	**29%**	**32%**
Elsewhere in the South East	**9%**	**8%**
Rest of the UK	**12%**	**17%**
Overseas	**8%**	**12%**
Total	**100%**	**100%**

Source: London Annual Business Survey, 2007 (LDA)

In addition, there is evidence of a higher share of employment in localised services within the public sector, which is itself more important in Outer London.

One reason for the relatively greater proportion of Outer London jobs serving local consumer markets is that many local residents work elsewhere, but meet a large proportion of their service needs within Outer London. But it is would be quite misleading to suggest that this is the main function of Outer London. From the 2007 LABS results it appears that about one third of all the London jobs associated with sales in markets outside the South East of England are in Outer London businesses. In terms of the scale of its productive economy, this would put Outer London on a par with major cities elsewhere in the UK.

Other characteristics which distinguish the Outer London economy from that of London's inner areas, include having less employment in headquarter establishments (13% compared with 20%, according to LABS 2007), and a lower proportion of graduates among those working in local jobs (28% compared with 46% according to the 2008 LFS). In both cases, this really highlights the distinctiveness of Inner London, rather than peculiarities or weaknesses in the outer borough economies. The proportion of graduate jobs is actually above that in the rest of the South East (24%), while the share of independent businesses in Outer London appears to be close to the national and South East average (according to the 2008 NBS).

While Outer London business (especially in the south and west) does have some particular specialisations, linked both to the knowledge economy and to international aviation, in many respects its profile is closer to that of other parts of the wider South East economy than to the more distinctive Inner London economy.

6.3 Performance of Productive Economy

The performance of the Outer London economy will now be appraised in terms of the criteria we previously applied to the London economy as a whole (in chapter 3), relating to growth, productivity, exporting and innovation.

6.3.1 Growth

In terms of employment growth at least, Outer London appears to have shown substantially less dynamism over recent decades than either London's inner areas, or adjacent 'rings' of the wider South East economy. On a peak-to-peak basis, comparing 1989 with 2007, employment in Outer London appears to have grown at less than a quarter of the rate of other parts of London and the Greater South East, and much slower even than the remainder of the UK (Table 6.4). An important factor within this was the loss over this period of the majority of Outer London's manufacturing base, involving the disappearance of about 150,000 jobs. In this respect the outer boroughs were following in the trail of those in inner London, which had lost most of their production jobs by the early 1980s. Arguably this represents a once-for-all transition, since Outer London too now has few 'real' manufacturing jobs left to lose, and those that remain may well derive more particular competitive advantage from staying in London, than those for which the city's congestion and high costs were simply constraints on expansion or profitable operation.

Table 6.4: Employment Change 1989-2007 - Outer London compared with Neighbouring Sub-Regions

	Employment Change 1989-2007	
	000s	%
Inner London	394	19.9%
Outer London	62	4.1%
Outer Metropolitan Area	449	20.3%
Rest of the Greater South East	561	20.7%
Rest of Great Britain	1897	13.7%

Source: Employment Census/Annual Business Inquiry data (via NOMIS), with bridges to link 3 sub-series.

6.3.2 Productivity

On the conventional indicator of labour productivity, average output (GVA) per full-time equivalent (FTE) worker, the Outer London economy displays a performance which is significantly above the national average, and better than the rest of the South East, though well below that of Inner London. The last available data relate to 2006, when estimated GVA per FTE worker in Outer London was 15% above the UK average - and that for the rest of the Greater South East - whereas in Inner London it was 58% higher. In each case there were substantial sub-regional variations, notably between east and west and between areas nearer to further from central London (Table 6.5). The highest productivity levels within Outer London were recorded in the west and south (respectively 13% and 31% above the UK mean), and lowest in the east (just 7% above average). Even the average for Outer London is comparable with those for the two strongest adjoining sub-regions to the north and west of London.

Table 6.5: Productivity and Earnings Levels in Outer London compared with Other Parts of London and the Greater South East.

	GVA 2006	Full-time Equivalent Workers 2006	GVA per FTE worker 2006		Average hourly earnings 2008		
	£bn	000s	£000s	Index UK=100	£s	Index UK=100	Standardised Index UK=100)
Inner London	157.1	2,126	73.9	158	16.3	160	129
OUTER LONDON	77.8	1,441	54.0	115	11.4	112	111
East/ North East	21.4	427	50.1	107	..	..	..
South	20.5	335	61.2	131	..	..	..
West/North West	36.0	680	52.9	113	..	..	..
Rest of GSE	266.3	5,664	47.0	100	10.3	101	102
Beds/Herts	55.7	1,028	54.2	116	..	..	..
Berks/Bucks/Oxon	34.4	656	52.5	112	..	..	..
Surrey/Sussex	51.2	1,015	50.4	108	..	..	..
Essex	26.4	592	44.7	95	..	..	..
Hants/IoW	34.0	781	43.5	93	..	..	..
Kent	25.2	615	40.9	87	..	..	..
East Anglia	39.5	978	40.4	86	..	..	..
UK	1177.2	25,128	47.0	100	10.2	100	100

Sources: 1. GVA estimates from ONS First Release Dec. 2008; worker numbers from Labour Force Survey (via NOMIS); earnings from unpublished LFS analyses.
Notes: 1. full-time equivalent workers calculated by treating part-timers as equivalent to 0,5 full-timers; 2. All data are on a workplace basis; 3. average hourly earnings are geometric means (based on logged earnings) to minimise impact of sampling among very high earners; 4. standardised earnings index represents remaining area differences after control for effects of age, sex, qualifications, occupation, industry and managerial/supervisory responsibilities. [NB weighted GL estimate =22%]

As noted in chapter 3, area differences in these simple average measures may reflect significant disparities in the value of assets used, particularly in terms of the capital intensity or human capital intensity of different activities or the parts of them which are undertaken in particular places. For more appropriate evidence on how the efficiency of Outer London's productive economy compares with that of other areas, we need some way of controlling for differences in these factors of production.

One simple alternative approach which should minimise the effect of varying degrees of capital intensity is to look at average earnings, on the basis that these should bear some relation to actual variations in labour productivity. On this measure, Outer London's position relative to its neighbours or the national average changes very little (see table 6.5), with hourly earnings about 30% below those in Inner London and 10% above those in the rest of the Greater South East. It is clear, however, that earnings in Inner London are boosted by a concentration of high status jobs attracting highly qualified workers and other types of human capital. In order to allow for these factors, regression analyses have been undertaken using

individual data on earnings and a wide range of control variables from the 2008 Labour Force Survey.

The results in terms of remaining inter-area differentials for a worker with a fixed (average) set of characteristics are reported in the last column of Table 6.5[19]. These scarcely alter the picture as far as Outer London is concerned: on this standardised basis, earnings here appear to be 11% above the UK average. In Inner London, however, allowing for qualifications and occupation accounts for half of the differential over the UK figure. After allowing for these factors, earnings in outer London seem to be between 10 and 28 % below those in Inner London, the higher figure applying just to financial and business services where the central areas clearly have a particular competitive advantage not generally available to them in outer London.

6.3.3 Exports

The data in Table 6.3 indicated that Outer London businesses generated a significantly lower proportion of export sales than did those in Inner London. This was the other side of the situation in which the service demands of commuters working elsewhere in the region sustained a higher proportion of Outer London sales into the local (borough level) market. What is not clear from such a comparison is whether a relative lack of sales into more distant markets simply reflects a natural pattern of specialisation within the Outer London economy, or whether to some degree it represents a degree of competitive weakness on the part of businesses based in the outer boroughs.

One way to gauge this, at least partially is to see how different the pattern of sales is between Inner and Outer London firms in the same broad sectors of activity using evidence from the 2007 LABS. This reveals some very large disparities in those sectors where there is both a concentration of businesses strongly orientation to overseas markets among central London firms, and a segment serving very local demands, which is dominant across much of outer London. Most notably this is the case in financial services, where the export share of sales is about 8 times as great in Inner as compared with Outer London. But it also applies to retailing and hotels/catering, where the role of international tourism is heavily concentrated in the inner areas. If these sectors are excluded, the overall differential in the export share of sales is substantially reduced (averaging 10.4% of sales in Outer London compared with 11.8% in Inner London). Although publishing has been identified as an area of specialisation within Outer London, it also appears much less internationally oriented there than in Inner London. But this is not true across the range of other sectors represented in the Outer London economy. A weaker export-orientation in Outer London may thus be primarily a reflection of different patterns of specialisation.

6.3.4 Innovation

Evidence from the 2007 LABS indicates that while Outer London firms are about as likely as those in Inner London to have recently introduced new equipment and almost as likely to have recently made major modifications to their existing products and services, they were much less likely to have actually introduced major new products or services. Overall, on an employment weighted basis, the survey found

[19] If attention is confined to private sector jobs, on the basis that public sector pay is more weakly connected to productivity, the corresponding estimates of standardised earnings indices are 131 (inner London), 111 (outer London and 104 (RGSE),

31% of Outer London business having done so, compared with 48% in Inner London. This difference was not simply a reflection of the broad pattern of sectoral specialisation, though it was linked to the localisation of firms' markets. The more that firms sold outside the South East region, the more they were likely to have introduced major product innovations over the previous year. Which of these attributes causes the other is unclear, but together they represent significant structural characteristics of the Outer London economy.

6.3.5 Summary

On average, outer London businesses show up less well on each of our indicators of competitiveness. They have much less positive employment trends, lower productivity, smaller export sales and lower rates of innovation. If we had disaggregated by sub-area, the most negative judgements on each criterion would apply to firms on the eastern side of Outer London.

As a generalisation this is over-simplistic, however. Some of the contrasts really reflect the concentration of a minority of exceptional character within parts of inner London. Others reflect the fact that more of Outer London employment is in activities that operate in quite distinct markets serving very localised demands – though these show up more strongly because of the weaker representation of forms serving national and international markets.

In certain sectors, including financial and business services and tourism, outer London is either not a competitive location for firms serving broader markets, or one which cannot sustain the levels of productivity achieved in central areas. Given the great importance of this sector within the London economy as a whole, that is clearly a weakness. But in other areas of activity the gap in performance between inner and outer areas, though still present, appears much less significant.

6.4 Population, households and housing mix

In population and household terms too, Outer London is rather more typical of the country as a whole than are the inner areas. Overall it houses 60% of the London population, though with 80% of the area it does so at a much lower density than that across Inner London – and with much less variation in densities than across the inner boroughs.

Its age structure is rather younger than that of the country as a whole, with more young children and fewer pensioners, but it still closer to the national average than is inner London, with its high proportion of 25-34 year olds, small numbers of school-age children, and even lower proportion of old people. Inner London is also distinguished from most other parts of the country by its low proportion of couple-based households, whereas in Outer London these are the dominant type.

This pattern of demographic variation reflects a long-standing life-cycle pattern of movement which starts with an influx of young, single adults into Inner London from across the country and overseas. As they form couples, and particularly when they have young children, they start to move outward to places where more space, owner occupation and schools with better reputations are available. Outer London occupies an intermediate position in this stage of outward movement, and tends

itself to have a negative migration balance in relation to the rest of the UK. Only three outer boroughs currently have net migration gains.

Direct international migration into the outer boroughs also tends to be more limited, though this situation is changing as the size of the overseas born population of London grows, and spreads further out. The proportion of live births to foreign-born mothers is still below that in Inner London (50% against 60%), but now well above the national average (of 23%) in almost all the outer boroughs.

The housing mix includes a proportion of residents in owner-occupation which is much higher than in Inner London, but still slightly below that in the adjoining regions of the Greater South East, or the UK as a whole. Conversely the proportion of social renting is barely half that seen in Inner London, but is close to the national average and significantly higher than in the surrounding region (Table 6.6).

Table 6.6: Housing Tenure of Individuals: Outer London and Neighbouring Areas

	Owner Occupied	Social Renting	Private Renting
Inner London	39%	34%	23%
Outer London	62%	18%	18%
Rest of Greater South East	71%	14%	12%
UK	68%	17%	12%

Source: Labour Force Survey 2008 (composite file).

Associated with this tenure pattern has been a social class mix which has traditionally included a much stronger representation of middle class/white-collar workers than prevailed in inner London. But its position has changed as gentrification has proceeded in the inner areas, and the size of the young single population has grown. Now, the average social status of employed Outer London residents is actually below that of their counterparts in Inner London (Table 6.7), although it still has a much lower proportion of the multiply deprived workless groups.

Table 6.7: Social Class of Working Residents: Outer London and Neighbouring Areas

	Higher Professional/ Managerial	Lower Professional/ Managerial	Intermediate, Own Account Supervisory and Technical	Semi-Routine and Routine Occupations
Inner London	24%	34%	24%	19%
OUTER LONDON	17%	29%	32%	21%
Rest of Greater South East	15%	28%	32%	25%
UK	13%	27%	32%	28%

Source: Labour Force Survey 2008 (composite file).

6.5 Future growth

The population of outer London is expected to grow by over 11% by 2026, which implies a rather smaller proportion of Londoners than at present. The big gainers in population over the period are the two Outer London Thames Gateway boroughs.

Together these account for 9% of Outer London population but are expected to grow over twice as fast as London as a whole by over 31%. On the other hand the two Thames Gateway boroughs that are further down river are expected to grow at less than half the London rate at only 6.5%. Across outer London, the richer areas particularly in the South West are expected to grow far more slowly.

The relative pattern with respect to households is, if anything, more extreme. The number of households in London overall is projected to grow by 20.5%, compared to only 14.5% for the whole of the UK. For Outer London however households are projected to grow by only 16.6%, and then account for less than 57% of London households by 2026 - a drop of 2%. Yet in the two 'inner/outer' Gateway boroughs household are projected to grow by 37% and account for almost 20% of the growth in the number of households in Outer London.

The growth of the labour force is also projected to be considerably less in Outer London than in London as a whole, reducing its share of the total labour force from 60% to 57% over the twenty-year period. Twenty-five percent of the growth in Outer London is concentrated in the south and west.

In terms of population densities the very large projected increases in population, and especially households, in Outer 'Thames Gateway' are not concentrated in boroughs with particularly low current densities (Table 6.8). Indeed both boroughs where the largest growth is expected are close to the London average of 4,800 persons per km^2. The projections therefore reflect the population structure of these boroughs, which is relatively young, and particularly the government's intention to concentrate housing development in very large sites in the Thames Gateway in both inner and 'inner/outer' London.

This has important implications for the existing residents, who are likely to suffer from the rapid changes in their areas. It also stretches the capacity of the development industry and the Homes and Communities Agency actually to generate output levels on this scale and on these very large, difficult and expensive sites. In this context it is worth noting that Outer London missed their housing output targets by 18% as compared to London as a whole which missed by only 8%.

Table 6.8 Population Density at Mid-year 2007

Outer London boroughs with highest density		**Outer London boroughs with lowest density**	
Brent	6.2	Bromley	2.0
Waltham Forest	5.7	Havering	2.0
Ealing	5.5	Hillingdon	2.2
Merton	5.3	(City of London)	2.8
London	4.8	Richmond	3.1
Greenwich	4.7	Enfield	3.5
Outer London	3.6	Outer London	3.6

6.6 Labour Market and Travel to Work Issues

The number of employed residents in Outer London (2.25 million in 2008 according to the LFS) is substantially larger than the number of jobs in the area – by about 600,000 (or 36%). This reflects the fact that a third of Central London workers actually live in Outer London, together with a quarter of those working in other parts of Inner London. With another sizeable number of Outer London residents working right outside Greater London, 50% of working residents actually have jobs outside the area. One clear implication is that this is far from being a closed labour market area. It is not quite so obvious whether the low ratio of jobs to residents across Outer London could represent a problem of some kind, either in the sense of having negative consequences or in potentially reflecting a failure of the local economy to generate an appropriate number of jobs. What is evident is that, the level of commuting to central London essentially reflects the fact that a large proportion of those occupying good jobs in the CBD have chosen to live in suburban environments offering space and a pleasant ambience at a more affordable price than is available in places with larger local concentrations of employment. Whether that still accounts for the full scale of out-commuting – including the growing numbers travelling for work out into the OMA – or whether part of this now represents an adjustment to some degree of failure in the Outer London economy is a significant issue in relation to current policy concern with encouraging job growth in the outer boroughs.

Table 6.9: Changes in Employment Relative to Working Age Population: Outer London in relation to Other Sub-Regions of the Greater South East

	Annual % change in	
	Employment 1989-2007	**Working Age Population 1992-2007**
Inner London	1.1%	1.5%
Outer London	0.2%	0.7%
Outer Metropolitan Area	1.1%	0.4%
Rest of the Greater South East	1.2%	0.8%
Rest of Great Britain	0.8%%	0.3%

Source: Employment data from Table 6.4; population data from ONS (via NOMIS)

The trend in Outer London job numbers has not actually been downward, but it has certainly not kept pace with the rate of growth in the local working age population over the past 20 years (Table 6.9). That is also true of Inner London, despite the faster employment growth there. In areas outside Greater London, by contrast employment has clearly been growing faster than the working age population.

Table 6.10: Changes in Employment, Commuting, Labour Supply and Worklessness 2004-2008

0000s and percent

	Inner London	OUTER LONDON	OMA	Rest of Greater South East
Working Age population	+215 (11.2%)	+93 (3.3%)	74 (2.0%)	178 (2.9%)
Employment by Residence	+216 (17.6%)	+60 (2.9%)	28 (1.0%)	104 (2.9%)
Employment by Workplace	+326 (15.3%)	-27 (-1.7%)	-22 (0.8%)	99 (2.9%)
Net Commuting	+110 (5.7%)	-87 (-3.0%)	-50 (-1.4%)	-5 (-0.1%)
W.A. Inactivity	-3 (-0.2%)	+20 (0.7%)	+24 (0.7%)	+23 (0.5%)
Unemployment	+2 (0.1%)	+13 (0.5%)	+22 (0.6%)	+54 (1.2%)

Source: Annual Population Survey (via NOMIS)

Notes: 1. All data relate only to those in the working age group; 2. Percentages changes in rows 1-3 relate to numbers in the relevant group in the base year; those in rows 4-6 relate to working age population numbers in the base year.

In the most recent period, for which the LFS provides comparable data on employment by workplace and residence (2004-8), the gap between population and employment change in Outer London actually widened (Table 6.11). Numbers working in the outer boroughs actually fell (by 2%), as they did in the OMA - though those in Inner London grew very strongly during these boom years, The imbalance was very substantially off-set, however, by shifts in the pattern of commuting, and by the increase in the number of residents in work (by 3%). This was almost as fast as the growth of the working age population, though both unemployment and working age inactivity in Outer London showed a significant increase (Table 6.10).

One way of summarising these changes is to say that about 70% of the gap in Inner London between changes in employment and in working age population was absorbed through increased commuting, particularly to Inner London, with the remainder adding to the level of worklessness in Outer London. That view is too simple, however, because worklessness also grew in the outer parts of the Greater South East where there were identical rates of growth in jobs and population, while in Inner London, where employment grew much faster than population, worklessness scarcely changed.

Relative to changes across the London metropolitan region as a whole (Greater London plus the OMA, approximating to London's effective labour market area), the fall in Outer London's working age employment rate amounted to about 0.3% over these four years. Compared with the 5% gap between employment and population growth rates in the sub-region, this suggests that no more than 5-10% of the effect of slower employment growth in Outer London gets reflected in worklessness within the sub-region.

Table 6.11: Worklessness Rates for Outer London and Neighbouring Sub-Regions 2008

	Unemployment	Economically Inactive (wanting job)	Economically inactive (not wanting job)
Inner London	8.2%	7.1%	19.1%
OUTER LONDON	6.3%	6.1%	16.7%
OMA	4.5%	4.5%	13.6%
Rest of Greater South East	4.9%	5.4%	12.7%
UK	5.9%	5.6%	15.8%

Source: Annual Population Survey (via NOMIS)

Overall rates of worklessness among the working age population in Outer London are above the UK average, and well above those in parts of the Greater South East outside London, though well below those for Inner London residents. In each case the differences are biggest in relation to those who are neither actively seeking work (i.e. the unemployed) nor expressing interest in having a job (Table 6.11).

As was discussed in chapter 4, the reasons for such differences in worklessness within sets of areas strongly linked in travel to work terms tend to have much more to do with differences in population mix between areas, than they do with area-related influences on opportunities and behaviour. Thus the rate of worklessness is always likely to be lower across Outer London as a whole than across Inner London, because the outer boroughs house more of those with the resources and motivation to seek larger owner-occupied properties, and fewer of those experiencing particular kinds of disadvantage or instability, whether because of discrimination, lack of experience or fewer family responsibilities. Similar differences have tended to exist between the population mix of the outer boroughs and of that of the Outer Metropolitan Area, which tends to be more strongly white, familial, owner-occupying and middle class in its profile.

Statistical analysis of individual data from the 2008 Labour Force Survey, using the array of indicators of personal characteristics discussed in chapter 4, confirms that a large part of the variation in worklessness rates between Outer London and other parts of the Greater South East can be explained in terms of population mix. This is particularly true in relation to formal unemployment, i.e. those actively seeking work, where no statistically significant differences between the sub-regions remain once individuals' characteristics are excluded from the analysis. It is least true in relation to those who are inactive and reportedly not wanting work, where only about half the differentials can be accounted for in these terms. Both Inner and Outer London appear to have substantially more of this group than would be expected from other characteristics of their populations. For the third group, i.e. those who want work, but are not actively seeking it, Outer London stands out as having a significantly higher share in this group after allowance is made for the population mix.

This remains true for a composite group including all those who say they want work, whether seeking or not, whose numbers in Outer London are about 17% greater than would be expected elsewhere in the region. So, even though Outer London generally lacks the very high rates of unemployment which are associated in Inner London with concentrations of disadvantaged population groups, it does appear that the long term disparity between population and employment growth rates in

the outer boroughs may well have contributed to rather higher rates of worklessness there

6.7 Quality of Life Issues for Outer London Residents

Like the suburbs of other British cities, what are now the outer London boroughs developed as places offering a superior but affordable quality of life for families whose main breadwinner continued to work in or close to the central business district. Housing tended to be larger, of lower density, in an environment which was perceived as greener, safer and more respectable than all but the wealthier parts of the inner city.

Against such traditional expectations, data from recent large scale survey data collected as part of the Best Value auditing procedure shows that Outer London residents are now less satisfied with the areas in which they live than are those in Inner London. Particularly wide variations were found between outer London boroughs, which included a couple with the highest levels of satisfaction among their residents, as well as the one with the worst. But overall, in the 2006/7 wave of the survey, there was a 5% gap between Outer and Inner London (66% against 71%) in numbers reporting satisfaction with their area and 6% also (11% against 17%) in those who were very satisfied (Ipsos-MORI, 2008).

Not only is this at odds with past expectations, there is evidence, at least in relation to satisfaction with the local council, of divergent trends since 2000, with satisfaction rising in Inner London, while falling in Outer London. Within each group, there is still clear evidence of lower levels of area satisfaction in localities where deprivation is greater, but this cannot account for a lower average satisfaction level across Outer London, where general deprivation levels are lower.

Analysis of these data highlighted a strong link between judgements about area quality and residents' concerns about anti-social behaviour, including (among Outer London residents) problems associated with teenagers on the street and lack of control over children. Such issues may attain greater prominence in outer areas because of the larger proportion of families in their population (Ipsos-MORI, 2008).

6.8 Transport Network – constraints and strategic possibilities

Outer London was originally able to develop because railways and the Underground made it possible for people to live in suburban areas while continuing to work in central London. Sir John Betjeman's 'Metroland' poetry wryly celebrated this development. But the evolution of mass car transport and the growth within outer London of a series of significant sub-centres has led to problems of congestion and a need for public transport of a more orbital, as opposed to radial, kind.

In comparison with many parts of the United Kingdom, including some provincial cities, outer London has relatively well-developed public transport systems. Railways and the Underground often allow people to travel into and out of metropolitan and town centres, e.g. Stratford, Harrow and Croydon, while bus services have been tailored to allow local travel into these hubs. However, compared with central London, no other parts of the capital are as accessible. The city's massive radial transport capacity has allowed an agglomeration of economic activity in the City

and West End. This agglomeration has become so important that many new transport plans and developments have been planned so as to reinforce it[20].

Nevertheless, from time to time, policy-makers have been concerned with the possibility that outer London might be consistently disadvantaged by the dominance of central London and the attention paid to the central area. The Mayor of London's Outer London Commission (OLC), set up as the result of such concerns, has articulated, in interim findings, a "very strong concern to improve orbital connectivity" and to "improve [the] quality and connectivity of inter-changes, [and] publicise orbital connectivity more clearly"[21]. It was also accepted that the car would continue to have an important role in outer London. The Commission recognised that there are a number of proposed improvements to transport in outer London.

In evidence to the OLC, Transport for London suggested the main transport problems facing outer London were: a lack of transport connectivity to the Outer London town centres; road congestion, and 'severance' due to natural and man-made barriers[22]. TfL provided the Commission with evidence showing how public transport use is lowest in outer boroughs and highest in the central ones. Thus, the number of public transport trips per day in Hillingdon, Harrow and Sutton is less than half the rate in Islington and Kensington & Chelsea. Walking and cycling rates are also lower in outer London than in the inner boroughs.

Outer London is a large and dispersed area. The transport system that has evolved in London has left a series of local transport networks which, taken together, play a role supporting the capital's economy. Improving connectivity has long been seen to be a key factor in improving the development of outer London town centres. Some improvements have been made in recent years, including the modernisation and extension of the bus network and the branding and renovation or the 'London Overground' lines. Nevertheless, connectivity is significantly stronger on radial corridors into central London. Links to town and other centres which are not on such radial corridors are generally less good.

The future development of outer London appears likely to see a small number of new infrastructure projects, including the possibility of extensions to the Docklands Light Railway and new bus services. Crossrail, when built, would improve access to centres such as Romford, Ilford, Stratford and Ealing. Similarly, the Thameslink project will improve access to some locations in outer north and south London. But constraints on public expenditure in the years ahead probably mean that additional major projects will not be attempted for some time. Lower-cost options, such as restraint of vehicle use, may be attempted, though London's original congestion charge experiment appears to have run its course. By far the most likely option for improving transport in outer London is by improving the productivity of existing infrastructure.

[20] See, for example, the *Central London Rail Study*, Department of Transport, 1989
[21] The Mayor's Outer London Commission, *Interim Report*, July 2009
[22] Transport for London, *Evidence to Mayor's Outer London Commission*, 2009

6.9 Conclusions: Whither Outer London?

The outer London economy is a much less coherent entity than that of inner London, for several reasons, but particularly because:

- the economic character of particular areas is strongly shaped by their relations to inner London, and the contrasts between areas where these are primarily in commuting terms and those which provide complementary supporting services of different kinds; and
- only a few areas – most notably around Heathrow and linked into the Thames Valley IT/business service complex – have distinctively strong economic assets to offer, beyond those of an accessible skill pool, proximity to a wider set of London markets/connections, and often a congenial residential environment for people with families

On a range of statistical indicators, the competitive performance of the Outer London economy appears distinctly weak, by comparison both with areas closer to the centre and neighbouring sub-regions outside London.

One factor in this is inferior transport access to other areas within the agglomeration, for reasons which are largely understandable given patterns of population and employment distribution, and an inherited network structure. Arguably this is reinforced by the strong strategic focus in recent years on needs of 'global city' functions in central London.

At present there is evident dissatisfaction within Outer London communities on several distinct grounds:

- local authority alliances and some others are discontented about a lack of economic growth, and a vicious circle which seems to connect this with lower levels of strategic investment in public transport and by the private sector in upgrading potentially competitive commercial centres;
- rising popular discontent expressed in opinion polls, and apparently reflected in London elections, with various aspects of the quality of life perceived as having deteriorated, notably in relation to anti-social behaviour, possibly also in relation to the spread of congestion and moves toward residential densification, but also probably linked to shifts in the social mix of residents; and
- an apparent view, within parts of the local political community, that developments in outer London insufficiently reflect local needs/priorities as distinct from those of London-wide policy-makers.

It is not clear, however, that there are strong substantive links among the three sets of problem issues. In particular, given the high level of integration within the metropolitan labour markets, it seems unlikely that any closing of the gap in economic performance between outer London and its neighbours would have much real impact on the quality of life of local residents – and probably none in relation to those aspects which seem to be of prime concern.

The Outer London Commission was appointed by the Mayor to address concerns of these kinds, and how they might appropriately be addressed in the current round of

review of London-wide strategies, including the Mayor's *Plan*. The Commission was given a particular steer toward considering the economic growth issues, and whether development of a number of major 'super-hubs' could turn-around the vicious circle of under-investment, limited accessibility and relative economic stagnation. The interim report, published in outline form during the summer as an input to the Plan review process (OLC, 2009), includes a large number of recommendations directed at both economic and quality of life issues, but pulls back from adopting the super-hub model. This proposition had been explored and consulted on in relation to designation of one such centre in each of northern, southern, eastern and western sub-regions. But it was rejected for a pair of reasons:

- because 'private office demand on this scale (is) unlikely'; and
- due to 'strong opposition from many stakeholders' claiming that such hubs would 'compromise prospects of other business locations' (OLC, 2009a, 16).

There had been evidence from Transport for London (TfL) that if built up to an adequate size such a set of major office hubs with associated residential development could form the basis for major public transport investment, creating nodes with much higher levels of accessibility, including orbital connections to each other, and provide a more efficient solution to transport needs. But this hinged on there being adequate impetus and demand to secure large scale growth in such hubs.

Conviction that this was economically realistic seems to have foundered for three reasons, because:

- of the four suggested hub-locations (Stratford, Croydon, Brent Cross and the Heathrow area) only Croydon clearly fitted the bill;
- commercial and developer judgements were highly sceptical about the viability of such major developments in outer London; and
- preference on the part of boroughs for sustaining their own existing set of town centres.

Accordingly, the interim conclusions favour action to make more effective use of existing spatial structures. This would include a focus on the 'constellation' of town centres, with selective designation of some as 'Strategic Outer London centres', and pursuit of a hub and spoke approach to enhancement of transport connectivity, rather than any high speed orbital public transport solution.

The emphasis in these interim conclusions is on realism, viability and efficiency, with many suggestions as to how these might be pursued, but very modest expectations as to how much difference all of these might be expected to make to rates of economic growth across Outer London. This may not be a problem, given the lack of evidence of a positive connection between growth and residents' quality of life. But it does seem in part to be a reflection of the strong role played by boroughs in the OLC's consultation process, which reduced the likelihood of more radical strategic solutions being adopted.

From this perspective, one of the most significant aspects of the OLC's interim conclusions may be its espousal of a stronger framework for joint work at the sub-regional scale in relation to implementation plans, co-ordination of funding and new efforts at collaborative planning to translate the Growth Corridor concept of the current London Plan into an operational source of competitive advantage.

Chapter 7 London's Position Within UK Public Finances

7.1 Introduction

London's Place has, for a number of years, made calculations about the capital's contribution to and receipts from the Exchequer. The contribution to the Exchequer comes in the form of tax, duties and other payments by individuals and companies to national revenues. Some 95 per cent of all United Kingdom taxes and other revenues are paid to central government, with a mere five per cent collected by local authorities in council tax. Receipts come in the form of public expenditure. In the UK, most public spending is undertaken by central government and its agencies, with about a quarter in the hands of local government.

The revenues paid to government by London residents and businesses have, for many years, been greater than the total of public spending within the capital. The gap between the two numbers has been described as London's 'contribution' to the rest of the UK. Typically, the net outflow of tax from the capital to the rest of the UK has been in the range of £10 to £20bn each year. A similar contribution has generally been made by the South East and a slightly smaller one by the East of England. Overall, the 'Greater South East' has been paying between £40 and £50bn per year more in tax than public expending levels within the area.

Such a redistribution of resources from some regions to others is hardly surprising. In the same way that some individuals pay more in tax than others, the total of the individuals within some regions will pay more in tax than elsewhere. Equally, some individuals and households (and the total of these within a particular region) benefit more from public services than others. A region with a relatively weak economy and a relatively deprived population is likely to have relatively high public service needs while making relatively small tax payments. London has relatively high service needs while making particularly high overall tax payments. Overall, as stated, the capital receives less in spending than it pays in tax.

The data from which to make calculations of this kind is of varying quality. In recent years, the Treasury has undertaken an increasingly sophisticated exercise to allocate public expenditure between regions. In the annual *Public Expenditure Statistical Analyses (PESA)* volume, about 85 per cent of all public spending is now allocated between the regions and nations of the UK. The remaining 15 per cent of 'unallocated' spending consists of services, such as the foreign office and parts of the defence budget, whose activities cannot be easily attributed to a particular region. Spending can now be identified for every nation and region within the UK, differentiating by function and category.

Interestingly, the effort to allocate public expenditure between geographical areas of the UK has been given a further push by the passage of the Sustainable Communities Act which now requires the government to publish annual Local Spending Reports, which allocate spending by national and local government bodies as between primary council areas. Thus, it is now possible to see how much social security, NHS and housing subsidy is paid out to deliver provision to people living within individual London boroughs. This more detailed allocation is of no direct relevance to London's Place, but it suggests that, over time, it will become relatively easier to allocate public expenditure to lower levels of government. On the basis of

Local Spending Reports and improved information about the payment of income tax, it may eventually be possible to identify tax 'contributions' and 'receipts' at the local authority level.

But this chapter concentrates, as in the past, on London's contribution and expenditure totals. It is important to note that London, though designated a 'region' within England is arguably rather different from other regions and, indeed, Scotland, Wales and Northern Ireland. London is an almost continuously built-up city, whereas other regions are mixtures of cities, towns and countryside. London is the city at the centre of the wider South East or Greater South East (GSE) region. It is the South East or GSE which are analogous with, say, the North West or Scotland. As a result of London being treated as a region, it is likely its public expenditure will include items that are made available for its wider region. Birmingham or Manchester, if their spending were viewed alone, would almost certainly be higher than the per capita figure for their region. As a result, wherever possible in this analysis we have shown the Greater South East totals along with those for conventionally-defined regions.

7.2 Public expenditure within London and other regions

7.2.1 Total Expenditure

The analysis of public expenditure shown below is extensively derived from the Treasury's PESA tables. All public spending is covered, including service provision and social security payments. PESA attributes expenditure on the basis of spending within the region, regardless of whether the services or benefits provided are consumed by the residents and businesses of that area. For the 'unallocated' part of overall public expenditure, it is necessary to find a plausible way of attributing it to each region in order that the balance between spending and tax can be estimated. Past editions of LPUK have used two bases for this attribution: population or in proportion to the allocated total. This chapter does the same. The difference between the two methods is relatively small, though slightly greater in London and the GSE than elsewhere.

Public expenditure by region in 2007-08, using the Treasury's numbers for the 'allocated' region-by-region figure and the 'population' and 'in proportion to the allocated total' estimates for the rest are shown in Table 7.1 below. London, which has the second largest population of any UK region, has the highest total expenditure figure, at between £80.7bn and £82.9bn, equivalent to about 15 per cent of UK public expenditure.

Table 7.1: Public expenditure by region, 2007-08 (£billion)

	Identifiable	Non-identifiable (a)	Non-identifiable (b)	Total
North East	20.92	4.30	4.57	25.22-25.49
North West	55.72	11.50	12.17	67.22-67.89
Yorkshire & H	37.95	8.68	8.29	46.24-46.63
East Midlands	30.04	7.38	6.56	36.60-37.42
West Midlands	40.23	9.03	8.79	49.02-49.26
East	36.84	9.49	8.04	44.88-46.33
London	68.05	12.66	14.86	80.71-82.91
South East	53.86	13.92	11.76	65.62-67.78
South West	35.79	8.68	7.82	43.61-44.47
'Greater SE'	158.75	36.09	34.66	191.21-197.02
Scotland	46.41	8.61	10.14	55.02-56.66
Wales	25.31	5.00	5.53	30.31-30.84
Northern Ireland	16.86	2.95	3.68	19.81-20.54
Outside UK	13.89	0	0	Included in 'non-identifiable'
United Kingdom	481.87	102.20	102.20	584.07

Source: *Public Expenditure Statistical Analyses 2009,* Cm 7630, Table 9.1 Population figures taken from same source, Annex F

7.2.2 Expenditure in relation to population

Table 7.2 shows per capita public expenditure on services. As implied by the figures in Table 7.1, London has relatively overall high spending per head. In 2007-08, expenditure was £9005 per capita in London, compared with a national figure of £7675. Both Scotland and Northern Ireland had higher figures, while all English regions were lower. The South East and East, surrounding the capital, were the lowest in the country, though the GSE number is somewhat below the average.

Spending per capita on social protection in London is close to the UK average, while on education and the NHS, the figure is slightly above. However, in transport, London's spending is substantially higher than in any other region. Economic development expenditure is higher in Scotland than in London, while in Northern Ireland more is spent per capita on housing than in London. But London's expenditure per capita on housing and economic development is second highest of any region.

Table 7.2: Identifiable public expenditure, by function and region, 2007-08

(£ per head)

	Public Order & Safety	Econ. Develop -ment	Housing	Health	Education	Social Protection	Other	Total
North East	512	625	209	1797	1320	3336	357	8156
North West	513	590	257	1786	1300	3237	435	8118
Yorkshire & H	457	530	189	1630	1244	2959	320	7329
East Midlands	384	488	114	1501	1203	2805	332	6827
West Midlands	446	500	150	1636	1315	3088	340	7475
East	360	441	110	1428	1147	2708	313	6507
London	786	976	361	1868	1524	3082	408	9005
South East	369	435	111	1475	1133	2641	319	6483
South West	361	482	125	1525	1120	2942	358	6913
'Greater SE'	513	626	198	1600	1274	2813	349	7374
Scotland	436	1027	340	1893	1430	3306	600	9032
Wales	458	746	171	1780	1326	3401	611	8493
Northern Ireland	739	838	642	1744	1380	3670	564	9577
United Kingdom	478	626	212	1659	1280	3025	395	7675

Source: *Public Expenditure Statistical Analyses 2009,* Cm 7630, Table 9.11

The public expenditure totals for each region can be compared with the overall scale of the regional economy. Table 7.3 shows the mid-point (between the two methods of attributing the unallocated margin) public expenditure total for the region, regional expenditure expressed as a proportion of Gross Value Added (GVA) and spending per employee. London's expenditure is equivalent to just over 35 per cent of its GVA, with the South East in virtually the same position. The UK average is just under 47 per cent. In the North East, public spending is equivalent to almost 63 per cent of GVA, in Wales almost 69 per cent and in Northern Ireland over 70 per cent.

As Tables 7.1 and 7.2 showed, London's spending figures, both absolute and per capita are relatively high. The fact that public expenditure is a relatively small proportion of GVA is evidence of the relatively large size of the capital's private sector economy. By contrast, the North East, Wales and Northern Ireland evidently have relatively small private sectors. Given the overall size of the London, South East and East economies, the figures in Table 7.3 provide important evidence about the concentration of the private sector economy in those regions. UK businesses are heavily concentrated in the GSE.

7.2.3 Expenditure in relation to economic activity

Public expenditure per employee shows London below the average, largely because of the heavy concentration of jobs (increased by net in-commuting) in the capital. This measure is interesting because it provides evidence about extent to which public expenditure services the labour market. Relatively low figures for London, the East and the South East suggest the level of expenditure by the public sector tends to be concentrated in parts of the country with relatively fewer jobs. Perhaps this is not surprising, though it provides suggestive evidence about the way in which relatively productive regions may find themselves operating with lower service levels than regions with less productive economies.

Table 7.3: Public expenditure within the regional economy, 2007-08

	Mid-point expenditure estimate (£bn)	Regional expenditure as % of GVA	Regional expenditure per employee (£)
North East	25.3	62.9	21900
North West	67.5	56.4	19800
Yorkshire & H	46.4	53.1	18300
East Midlands	37.0	47.5	17000
West Midlands	49.1	53.2	18600
East	45.6	39.2	16300
London	81.8	35.6	17400
South East	66.7	35.5	15200
South West	44.0	46.7	16600
'Greater SE'	194.1	36.4	16300
Scotland	55.8	56.6	21900
Wales	30.5	68.8	22700
Northern Ireland	20.1	70.7	25700
United Kingdom	584	46.8	18600

Sources: (i) Public expenditure as in Table 7.2 above; (ii) GVA taken from Office for National Statistics at http://www.statistics.gov.uk/pdfdir/gva1208.pdf, Table NUTS1.1; (iii) Employee numbers from Regional Trends 41, Table 9.3

7.3 Tax payments by London and other regions

The second key element in calculating the balance between public expenditure and revenues within the regions is the attribution of tax and other government income payments to each region. As with the allocation of spending from region to region, there is now a well-established method for dividing up national revenue totals between them, used by researchers at Oxford Economics, GLA Economics and consultancy CEBR. This method is described in more detail in Annex A. In summary, it starts with the Budget Red Book totals of taxes and other revenues at the

national level and then attribute these to each region on the basis of existing data about sub-national tax payments (for example, for income tax, council tax and national non-domestic rates) or, in other cases, by the use of proxies (such as the number of licensed vehicles in each region to attribute Vehicle Excise Duty).

Because of commuting by employees between London and the other two regions within the GSE, it is necessary to show figures for tax paid in each region on two different bases. This issue is of direct relevance to income tax payments. First, income tax can be attributed on the basis of where people live, on a 'residence' basis. Secondly, it can be attributed on a 'workplace' basis, making it possible to assess the relative importance of each region in generating the tax. There are arguments for both methods, though the 'workplace' basis probably gives a better picture of the tax-generating capacity of each area.

Table 7.4a shows the yield of taxes and other revenues, on a residence basis, in 2007-08. Figures are given for income tax, National Insurance, VAT and 'Other' revenues. The detail of these (generally smaller) revenues is given in Table A2 and A3 in Annex 1. Income tax, at £151.8bn is the biggest single revenue, followed by National Insurance and VAT.

Table 7.4a: Public revenues – residence basis, 2007-08

	Income tax		**NI**		**VAT**		**Other**		**Total**	
	£bn	%	£bn	%	£bn	%	£bn	%	£bn	%
North East	4.6	3	4.2	4.2	2.7	3.3	7.6	3.5	19.1	3.5
North West	13.2	8.7	10.3	10.2	7.9	9.8	22.3	10.4	53.7	9.8
Yorkshire & H	9.7	6.4	7.5	7.5	5.8	7.2	15.9	7.4	38.9	7.1
East Midlands	9.1	6	7	7	5.2	6.4	14.2	6.6	35.5	6.5
West Midlands	10.6	7	8.2	8.2	6.1	7.6	17.3	8	42.2	7.7
East	15.8	10.4	10.2	10.1	7.7	9.5	20.1	9.3	53.8	9.8
London	31	20.4	15.7	15.6	15.2	18.9	35.3	16.4	97.2	17.7
South East	27.8	18.3	14.4	14.3	12.4	15.4	32.4	15.1	87	15.9
South West	11.1	7.3	7.9	7.9	6.2	7.7	17.3	8	42.5	7.8
'Greater SE'	74.6	49.1	40.3	40	35.3	43.8	87.8	40.8	238	43.4
Scotland	11.1	7.3	8.5	8.5	6.5	8.1	18.5	8.6	44.6	8.1
Wales	4.9	3.2	4.3	4.3	2.9	3.6	8.7	4	20.8	3.8
Northern Ireland	2.9	1.9	2.2	2.2	1.9	2.3	5.6	2.6	12.6	2.3
United Kingdom	151.8	100	100.4	100	80.6	100	215.2	100	548	100

Table 7.4b: Public revenues – workplace basis, 2007-08

	Income Tax		NI		VAT		Other		Total	
	£bn	%	£bn	%	£bn	%	£bn	%	£bn	%
North East	4.6	3	4.2	4.2	2.7	3.3	7.6	3.5	19.1	3.5
North West	13.2	8.7	10.3	10.2	7.9	9.8	22.3	10.4	53.7	9.8
Yorkshire & H	9.7	6.4	7.5	7.5	5.8	7.2	15.9	7.4	38.9	7.1
East Midlands	9.1	6	7	7	5.2	6.4	14.2	6.6	35.5	6.5
West Midlands	10.6	7	8.2	8.2	6.1	7.6	17.3	8	42.2	7.7
East	14.6	9.6	10.2	10.1	7.7	9.5	20.1	9.3	52.6	9.6
London	33.9	22.3	15.7	15.6	15.2	18.9	35.3	16.4	100.1	18.2
South East	26.1	17.2	14.4	14.3	12.4	15.4	32.4	15.1	85.3	15.6
South West	11.1	7.3	7.9	7.9	6.2	7.7	17.3	8	42.5	7.8
'Greater SE'	74.6	49.1	40.3	40	35.3	43.8	87.8	40.8	238	43.4
Scotland	11.1	7.3	8.5	8.5	6.5	8.1	18.5	8.6	44.6	8.1
Wales	4.9	3.2	4.3	4.3	2.9	3.6	8.7	4	20.8	3.8
Northern Ireland	2.9	1.9	2.2	2.2	1.9	2.3	5.6	2.6	12.6	2.3
United Kingdom	151.8	100	100.4	100	80.6	100	215.2	100	548	100

Source: See Appendix 1 for further discussion of sources and method

London alone makes a significant contribution to government revenues—17.7% of total income on a residence basis, and 18.2% on a workplace basis, in 2007-08. The figures for the GSE reflect the relative prosperity of the rest of south-east England; 43.4% of revenues come from the GSE using both calculation methods. These percentages are well above the London and GSE population shares and reflect the relatively high incomes of Londoners and those who commute in. This pattern is now well-established, having been seen in past editions of LPUK and other publications.

7.4 The balance between expenditure and taxation

Table 7.5 brings together information from tables 7.1 and 7.4a and b, to show the relationship between estimated taxes paid and total public expenditure in each region in 2007-08. In most UK regions the difference is negative—that is, public expenditure was higher than taxes paid in the region. In only three regions was the difference positive: London, the East and the South East, all of which together make up the GSE. Overall, there was a net budget deficit of £36bn in 2007-08. This figure will, according to official forecasts, grow sharply in 2008-09 and 2009-10. As the deficit increases, it is likely that all UK regions will be contributing less in taxation than they receive in public spending.

In 2007-08, London made a net 'contribution' to the Exchequer of between £14 and £19bn; the figures for the GSE are between about £41 and £47bn. These figures are in line with those calculated by other analysts. They are explained by the fact that London has a high concentration of high earners and companies with high value added, leading to high tax revenues. The city also has relatively high expenditure needs, partly as a result of concentrations of deprivation and partly because of its status as a city at the centre of a wider region. Although public spending per capita

is higher in London than elsewhere, it does not exceed the UK average by as much as London tax revenues do.

Table 7.5: The revenue/expenditure balance, 2007-08

	Tax paid (£bn)	Public expenditure (£bn)	Difference (£bn)
North East	19.1	25.2 – 25.5	-6.1 to -6.4
North West	53.7	67.2 – 67.9	-13.5 to -14.2
Yorkshire & H	38.9	46.2 – 46.6	-7.3 to -7.7
East Midlands	35.5	36.6 – 37.4	-1.1 to -1.9
West Midlands	42.2	49.0 – 49.3	-6.8 to -7.1
East	52.6 – 53.8	44.9 – 46.3	+6.3 to +8.9
London	97.2 – 100.1	80.7 – 82.9	+14.3 to +19.4
South East	85.3 – 87.0	65.6 – 67.8	+17.5 to + 21.4
South West	42.5	43.6 – 44.5	-1.1 to -2.0
'Greater SE'	238.0	191.2 – 197.0	+41.0 to +46.8
Scotland	44.6	55.0 – 56.7	-10.4 to -12.1
Wales	20.8	30.3 – 30.8	-9.5 to -10.0
Northern Ireland	12.6	19.8 – 20.5	-7.2 to -7.9
United Kingdom	548.0	584.0	-36.0

Source: derived from Tables 7.1, 7.4a and 7.4b
Note: a range of 'tax paid' is shown for the East, London and South East because of the difference between 'workplace' and 'residence' tax payments. In other regions, there is no need for such an adjustment because new cross-boundary commuting is de minimis.

Londoners are paying more in taxes than they receive in public expenditure. But we also know that Londoners have relatively high incomes, upon which, according to Tables 7.4a and 7.4b they are making relatively high tax payments. The Office for National Statistics has recently been publishing more information and analysis about gross disposable household income (GDHI). It is therefore possible to see whether, despite paying relatively large amounts of tax compared with other regions, Londoners have higher disposable income than people in other regions and, more particularly, whether the redistribution of taxation via public expenditure allocations has an impact on growth in particular regions.

Estimates of London's net contribution (i.e. total taxes paid minus total public expenditure) have been made for a number of years now. Calculations have been undertaken by a number of different research teams, notably Oxford Economics, GLA Economics and the LSE. All have used similar methods and have reached broadly the same results. Table 7.6 summarises the range of London's net contribution published in each volume of *London's Place in the UK Economy* since 2003. There has been some variation in the 'lower' estimate within the range, though this lower total appears to have risen sharply since 2004-05. The 'upper' estimate has been extraordinarily consistent, particularly as it is the residual of two large numbers.

The relative consistency of the calculations made over time by different research teams suggest the ranges produced and their mid-point are a plausible and broadly accepted estimate of the net balance between the taxes paid by London and public expenditure within the city.

Table 7.6: London's net 'contribution to the Exchequer, 2001-02 to 2007-08

Year	'Contribution' range (£n)
2001-02	7.3 to 17.5
2002-02	3.0 to 18.6
2003-04	6.0 to 18.0
2004-05	5.8 to 20.4
2005-06	7.6 to 17.8
2006-07	11.5 to 18.4
2007-08	14.3 to 19.4

Source: *London's Place in the UK Economy*, editions published 2003 to 2009, City of London Corporation

7.7 Economic growth and personal disposable income

Table 7.7 shows the increase in the size of the economy (as measured by gross value added) by region over the period 2000-07, and the growth in gross disposable household income over the same period. London's economy grew significantly faster than the UK overall (50.6%). The rate of increase in gross disposable household income of 30.3%, while slightly higher than the UK average, was significantly slower than growth in the overall London economy. This suggests that the tax and public expenditure systems transferred resources from income-producing areas (London and the GSE) to areas with slower growth and GVA per head.

Table 7.7: Growth in GVA (workplace) per head compared to growth in gross disposable household income per head, 2000 to 2007 (%)

	Increase in GVA 2000 - 2007	GVA per head 2007 (£)	Increase in GDHI 2000 - 2007
North East	40.8	15,688	29.4
North West	38.6	17,433	28.3
Yorkshire & H	35.2	16,880	27.3
East Midlands	38.1	17,698	30.3
West Midlands	32.4	17,161	27.3
East	33.8	20,524	26.3
London	50.6	30,385	30.3
South East	36.4	22,624	25.1
South West	38.1	18,195	28.1
'Greater SE'	40.0	24,792	27
Scotland	35.1	14,877	31.2
Wales	41.9	19,152	30.9
Northern Ireland	41.4	16,170	32.9
United Kingdom	39.4	20,463	28.4

Sources: ONS National Statistics Regional Gross Value Added online Table 1.1; National Statistics Regional Household Income Data online table NUTS 2:2

Table 7.8 looks at trends in investment in public transport and housing in London. It shows that expenditure on transport, relative to the size of the economy, has been growing strongly in recent years—in 2007-08 it was 1.4 per cent of GVA, up from 0.9 per cent in 2004-05. This change reflects the increase in transport expenditure that has resulted from the government's investment in the Underground and other forms of transport and its agreement to provide £39bn in funding for the capital's bus, tube and rail system over a ten-year period. In housing, on the other hand, the growth trend that was evident last year has stalled, with public capital spending holding fairly steady at about 0.9 per cent of GVA.

Table 7.8: Public capital spending as a proportion of GVA, 2001-02 to 2007-08: transport, housing, London

	Transport		Housing	
	£m	% of GVA	£m	% of GVA
2001-02	1188	0.73	623	0.38
2002-03	1658	0.95	613	0.35
2003-04	2083	1.20	787	0.45
2004-05	1904	0.90	1078	0.51
2005-06	2362	1.07	1599	0.72
2006-07	2709	1.15	2135	0.91
2007-08	3621	1.44	2150	0.86

Sources: *PESA 2009*, Table 9, plus equivalent figures from earlier volumes; GVA taken from Office for National Statistics, *Regional, sub-regional and local gross value added 2008*, Table 1.1, adjusted for financial years

7.6 Capital expenditure

Table 7.9 compares public sector capital spending as a percentage of workplace-based GVA across the nations and regions. In 2007-08 overall public sector capital investment in London was equivalent to the UK average. Scotland in particular was the outlier here, with public sector capital expenditure relative to the size of the economy more than three times higher than the national average. Wales, the South East and East were well below the average. It should be noted, however, that these figures can change from year to year given the 'lumpy' nature of some major investments. The importance for London of this table is that it shows the relative priority given by the government to investing in each area's economic infrastructure and thus, by implication, in its productive capacity.

Table 7.9: Public capital spending as a proportion of GVA, 2007-08, all services, UK regions

	Capital spending as % of GVA
North East	3.8
North West	4.4
Yorkshire & Humber	3.2
East Midlands	2.7
West Midlands	3.4
East	2.6
LONDON	3.4
South East	2.5
South West	2.8
'Greater SE'	3.0
Scotland	11.5
Wales	2.1
Northern Ireland	5.5
United Kingdom	3.4

Sources: PESA 2009, Tables 9.5 - 9.13; *Focus on London 2009*, Table 5.2 (online tables)

Table 7.10 shows public sector capital expenditure on services for the years 2003-04 to 2007-08, including some of the numbers in Table 7.8. There have been significant increases in investment expenditure on major services including 'economic affairs' (mostly transport), housing and, to a lesser degree, health. The total, at over £8.5 billion is equivalent to just under 20 per cent of total UK public sector capital spending.

The income for this spending is provided by central government grants, by local authority borrowing or by use of capital receipts. Although the boroughs and the GLA are able borrow to fund capital expenditure within a 'prudential rules' system, the major rises shown have occurred because of increases in Whitehall grants during

the period shown. Thus, for example, transport investment is overwhelmingly dependent on grants from central government.

London is expected to see continued growth in its population and workforce in the years ahead. Yet the government has already announced, in its 2009 Budget, a sharp reduction in capital spending between 2011-12 and 2013-14. In current circumstances, it is unlikely the Mayor or the boroughs will be able (because of constraints on their council tax income) to increase borrowing significantly. Thus, if the expected increases in population and workforce occur, they will be against the background of falling capital investment. London local government is most unlikely to be in a position to make good the expected fall in central government capital resources. A growing city will face contracting investment unless substantial private sector finance can be secured for the services shown in Table 7.10.

Table 7.10 Identifiable public sector capital expenditure, 2003-04 to 2007-08, London

	2003-04	2004-05	2005-06	2006-07	2007-08
General public services	18	173	195	179	183
Defence	12	4	2	1	0
Public order & safety	276	335	350	309	300
Economic affairs (of which, transport)	2242 (2083)	1974 (1904)	2548 (2362)	2853 (2709)	3604 (3621)
Environmental protection	84	115	130	116	110
Housing & community amenities	787	1078	1599	2135	2150
Health	543	642	515	516	730
Recreation, culture, religion	246	196	243	190	158
Education	718	854	1000	1041	1130
Social protection	133	55	130	105	98

Source: Public *Expenditure Statistical Analyses 2009*, Cm 7630, Tables 9.5 to 9.14

7.7 A new analysis of inter-regional resource transfers

Table 7.11 presents new information on the composition of gross disposable household income per head by region. The figures shown are indexed to UK = 100. London, followed by the South East, have the highest gross disposable household income of any region, with GDHI 25 per cent and 12 per cent respectively above the UK average. London has the highest levels for three of the components of GDHI: employee compensation is 43% above the UK average (reflecting the concentration of high-paid jobs in the city), net property income 37% higher, and operating surplus/mixed income 40% higher. This is to a large extent offset, however, by net

current transfers out of London—the outflow of net transfers of social contributions and taxes is over three times the UK average.

Table 7.11 Gross Disposable Household Income per head and components, 2007

	Operating Surplus/Mixed Income	Compensation Of Employees	Net Property Income	Net Current Transfers	Gross Disposable Income
North East	65	83	68	-37	85
North West	79	88	86	-56	91
Yorkshire & Humber	79	87	94	-63	90
East Midlands	86	92	99	-84	92
West Midlands	85	88	85	-68	90
East	116	105	118	-125	105
London	140	143	137	-248	125
South East	128	114	122	-149	112
South West	113	89	102	-63	99
Scotland	74	97	92	-81	95
Wales	81	77	76	-12	88
Northern Ireland	91	76	85	-29	87

Source: *Focus on London 2009*, Table 5.11

This analysis, undertaken by the Office for National Statistics, strongly suggests the various attempts that have been made in recent years, including by different authors within the LPUK series, to calculate the taxation and other revenues paid by each region have produced plausible results. It is evident from Table 7.11 that London is contributing significantly higher tax payments to the Exchequer than other regions, with the exception of the South East.

7.8 Investment in Housing

One area where London is clearly benefiting in financial terms is land assembly and housing activities—this despite the economic downturn that has hit all types of development activity very hard indeed. Housing investment has fallen by more than 50% over two years and developers have been left with balance sheets and valuations which make it extremely difficult for them to take the initiative. However the government is committed to increasing output of housing in general and affordable housing in particular, and made a very large financial commitment to the new Homes and Communities Agency (HCA) set up in December 2008. This huge pot of funding, a total of about £17bn, must be used in the current spending round—that is, by March 2011. So only stalled projects or projects which are immediately ready to go even in the very difficult current environment can effectively be supported – and to some extent the larger they are the better, as negotiating and other skills within the HCA are inherently limited.

London is in a relatively strong position for four main reasons:

I) the final round of the government's current Decent Homes programme is heavily concentrated on older social-sector property, much of which is located in London;

ii) the Thames Gateway has been the subject of massive planning and infrastructure so public/private partnerships are well developed;

iii) London is the only region with a directly elected regional government which is heavily committed to ensuring higher levels of housing provision even in these difficult times; and

iv) one of the principal legacies of the 2012 Olympics is to be high-quality affordable housing.

London's share of the HCA budget for this spending round is just over £5bn, or about 29%. Large-scale HCA housing activities in London include:

a) the London-Wide Initiative – a £1 billion programme to deliver low cost home ownership to key workers on 16 sites;

b) Kidbrooke Vision – which involves the creation of 4,000 homes (and the demolition of 1,900 older units) of which 40% are to be affordable; and

c) Woodberry Down in Hackney where 4,600 homes are to be built half of which will be affordable. This is an example of a stalled project kick-started by HCA intervention.

Because housing is one of the easiest types of investment to stop in a downturn and to expand to meet targets as the economy starts to turn upwards, large public direct subsidies and resources (especially in the form of assembled land) can be brought forward relatively rapidly. None of this is to deny the depth of the downturn, which means that national housing output will likely to be around 100,000 units this year, down from 167,000 in 2007/08. The majority of these units, whether technically private or social, will be built using public subsidy in one form or another.

7.9 Conclusion

London has enjoyed a relatively sharp boom in public sector investment in recent years. This rise appears to have sustained the capital's capacity to yield a net tax 'surplus' compared with the amount that the public sector spends on services and investment in the city. Looking ahead, it is projected that London's population and labour force will continue to expand in the years ahead. However, capital investment is unlikely to grow. Indeed, all the indications are that there will be a contraction in public sector investment from 2011-12 onwards, if not before. If this reduction takes place, the capital will need to expand on the basis of only modest annual investments as compared with the sums spent in the years since the mid-2000s. Congestion and quality of life would be likely to suffer if growth is not matched by investment. In the longer term, there would be a threat to growth and thus to the capacity of the London economy to support the country as a whole.

Chapter 8 Prospects and Issues for the London Economy

8.1 Introduction

This is a time of considerable uncertainty, about short and longer term developments, for the wider national and international economy and more specifically for London. The particular sense of uncertainty about London's position reflects both the central role of its most distinctive industry - wholesale financial services - in the current economic crisis, and widespread questioning in the UK about the sustainability of practices which were a part of London's particular success over the past decade. This sense of uncertainty is in striking contrast to the mood around the millennium, strongly reflected in the first Mayoral *London Plan*, and which took for granted the inevitability of future strong growth in this 'global city' On the other hand, there is (as we have noted earlier) little hard evidence so far to suggest that the city is being more affected than elsewhere in the UK economy by the current downturn, nor for expecting radical shifts in the key conditions underpinning London's development since the early 1980s.

In this situation, it is appropriate firstly to take a view of what the baseline trends of this era have been – assuming that these are the most likely pattern to return after the recession eventually passes – and then to consider some plausible scenarios which could involve significant departures from these trends.

This chapter starts with the first of these tasks, comparing a perspective informed by the analyses of previous chapters with those adopted or under current consideration by London's planners. It then presents and comments on a set of new forecasts prepared for the City of London Corporation by Oxford Economics, which cover the dynamics of the current recession and the subsequent growth path of the recovery. The penultimate section then outlines a number of alternative scenarios, before concluding with a discussion of some of the key policy issues raised by this review and previous chapters of the report.

8.2 Baseline trends in the London economy

8.2.1 Employment

Volatility in economic activity has become a major source of confusion in identifying trends in London, not only because the city economy has become increasingly sensitive to macro-fluctuations as it has moved towards a greater emphasis on more advanced services, but also because macroeconomic cycles have become longer and much less regular. In particular the boom of the late 1990s and the sustained high level of demand from then until the current crisis fed an over-optimistic view of what was normal and sustainable.

In order to distinguish baseline trends from such fluctuations we have analysed annual data on London employment changes by broad sector since 1971, with an indicator of cyclicality based on deviations of UK service sector GVA change from its long term/sustainable 3% average. Actual cyclicality proved to have grown almost in proportion to the share of employment in the 'advanced service' sectors (financial, business and 'other' services). After allowing for this, manufacturing employment changes were found to follow a steady downward path of

proportionate decline, whereas in other sectors trends were defined basically in terms of fixed absolute rates of increase, or occasionally decrease[23].

Table 8.1 Projected Employment Changes 2007-2031

	Employment (000s)			Average change p.a. 2007-31	
	2007	**2019**	**2031**	**000s**	**(%)**
Manufacturing	203	111	61	-6	(-4.9%)
Financial Services	415	410	400	-1	(0%)
Business Services	1070	1293	1531	19	(1.5%)
'Other community, social and personal services'	396	455	516	5	(1.1%)
Construction, transport, distribution, catering, public services etc.	2598	2625	2669	3	(0.1%)
Total employment	4682	4896	5175	21	(0.4%)

Note: Main elements of the 'other service' employment in London are membership organisations, culture and entertainment.

The results of this statistical analysis are translated into trend projections for the London Plan period in Table 8.1, on an assumption of continued national GVA growth in the service sector of 3% p.a. These imply rates of job loss in manufacturing starting off at about 10,000 p.a., but diminishing proportionately as the sector shrinks to reach just 3,000 p.a. by 2031. These off-set a fairly constant rate of growth across other sectors of some 26,000 p.a. to yield overall net increases rising from 16,000 to 23,000, and yielding a total projected increase between 2007 and 2031 of 493,000 jobs.

The average rate of increase over this period is half that assumed in existing versions of the London Plan (averaging about 42,000 p.a.)[24], though its statistical projections were based on essentially the same data record - culminating in the boom years of the 2000s). The difference may lie partly in the fact that the Plan's projections started from an *assumed* rate of GVA growth in the London economy. Principally, however, it arises because the GLA Economics' projection methodology did not make allowance for the strong degree of cyclicality contributing to London's growth performance in the late 1990s.

Cyclicality remains an issue in relation to our projections also, in so far as they take the 2007 employment level as a baseline. In effect then they are projecting how the cyclical peak level of employment might be expected to change, rather than the level which would be expected in a typical year, mid-way between cyclical peaks and troughs. Given the scale of recent fluctuations in the London economy, this is potentially a very important consideration. In an average year in terms of demand

[23] In particular this implies that there was no tendency for growth in the two more rapidly expanding (private) advanced service sectors, businesses services and the creative/entertainment-oriented 'other service' category to follow accelerating/exponential growth paths.

[24] The contrast with the first version of the Plan is actually sharper than this suggests, since its projections only covered the years 2001-2016 when manufacturing decline had more impact: our projection model implies an average growth of 16,000 p.a. over that period.

pressure across the national economy, on past experience actual employment levels might be 200,000 (or more below these projections of the cyclical peak).

A further point to make is that even if nothing disturbs a continuation of past trends, there are significant margins of uncertainty about estimates of what this trend has been, given the degree of medium-term volatility of London employment. As a first approximation, we estimate that the standard error of our annual change estimates is ± 10,000, with 95% confidence limits then of twice that range - implying an *average* addition to London employment over this period of somewhere between 1,000 and 41,000 p.a.

In relation to employment, which is a key variable for every kind of local and national strategy directed at London, there are three substantial problems in reliably identifying underlying trends:

- the poor quality of employment data available for London from regular national sources;
- the high degree of volatility and cyclical sensitivity of the contemporary London economy; and
- the impact of one-off and unique developments.

The data-base suffers from two problems. One is that because of discontinuities in the collection methods and categories used by government statisticians over the years, there is no single authoritative time series for London covering total employment in London since the early 1970s. The other, potentially more serious one is that all such data based on employer surveys (including the current set derived from the ABI) are vulnerable to 'headquarters bias', involving an erratic tendency for employment in particular companies to get misattributed to headquarters addresses, frequently in London. Currently this appears to be a particular problem in the distribution and business service sectors (ONS, 2008b), but it is not consistent over time, and seems to have contributed to a substantial overstatement of London employment growth during the late 1990s upswing. Unfortunately, however, there is no alternative data source covering an adequate period to gain a long-term perspective.

8.2.2 Population and Households

Current population projections for London from the GLA (DMAG, 2009), and covering the period of the London Plan (up to 2031), come in two variants:

1. On the 'high variant' expected population growth for London between 2007 and 2031 is 1.56 million. This is based on national (ONS) assumptions about future birth and death rates, and about rates of international migration, with those for 2007-12 being rolled forward to 2026. At the same time, a continuation of the share of international migrants received by London in 2002-7 is assumed;
2. On the 'low variant' expected population growth for London between 2007 and 2031 is 1.34 million. In this constrained version, in which net migration to London is restricted by expected housing capacity, with the addition to homes in London expected based on construction rates observed since 2001.

In addition to the issues about the impact of housing constraints, there are major uncertainties about the likely scale of international migration into London. During the past year ONS made major adjustments to its estimates of the regional distribution of immigration taking place since the Census, with a significant downward revision in London's estimated share. This reflected evidence that responses to the International Passenger Survey put too great an emphasis on initial location (often London) as compared to chosen location of residence once the migrant has settled down. A consequence has been to lower estimates of likely future growth, as well as of the current population in London. There is considerable disagreement among commentators about the robustness of these new figures and some suggestions that there will be further revisions – together with evidence of a real downward trend in London's share.

There is also the issue (touched on in chapters 2 and 4) about how far net migration from overseas leads, through housing market displacement, to more net out-migration to neighbouring regions – and whether that might be expected to increase as migrants' expectations of housing space standards approach to those of the UK-born population. That could depress expected growth significantly, not only on the GLA's high variant (based on migration trends) but also on the low variant (based on capacity standards of an expected housing stock).

This issue also has implications for the projections of household numbers which are derived from the population projections (via assumptions about headship rates in different demographic groups), and then used as an important element in estimating housing requirements. On national government (DCLG) projections, in London (as in all other regions) the number of households is expected to grow substantially over the next 20 years. This reflects three factors: increasing longevity; increasing migration; and an increasing wish for people to live separately, partly as a result of rising income levels.

In addition to concerns about the reliability of underlying regional population projections, there are grounds to question how these get converted into projected household numbers. In particular these involve the issues about:

- the expected changes in the pattern of migrant household formation relative to that of the indigenous population; and
- the extent to which the current recession will negatively impact on the growth in the number of households.

The potential impact of alternative assumptions about these issues is indicated in Table 8.2 which presents the latest DCLG household projections alongside a modified set, based on the same population projections but taking account of the migrant behaviour and economic recession factors.

Table 8.2: Expected Change in Regional Household Numbers 2006-2026: Official and Modified Projections

	Official projection		Modified projection	
	Net change (000s)	**%**	**Net change (000s)**	**%**
North East	171	15.4%	148	11.8%
North West	566	19.3%	505	14.7%
Yorkshire and Humber	611	28.0%	562	20.5%
East Midlands	564	30.5%	522	22.0%
West Midlands	431	19.3%	384	17.0%
East of England	685	28.9%	631	21.0%
LONDON	689	21.7%	621	16.3%
South East	797	23.1%	722	17.3%
South West	643	29.1%	593	21.1%
England	5,159	24.0%	4,690	17.9%
Wales	269	21.1%		
Scotland	378	16.5%		
Northern Ireland	159	23.6%		
UK	5,965	23.2%		

Source: columns 1 and 2 from DCLG live tables (2006-based household projections); columns 3 and 4 based on from Holmans and Whitehead (2008)(ref Shelter November 2008 and update).

The figures suggest that official household projections are likely to turn out to be considerable overestimates *unless* the economy improves very rapidly. In either case London's household growth is likely to be relatively lower than has been assumed over the past few years. However, the numbers of additional households is still likely, at 31,000-34,000 p.a. to grow significantly more rapidly than the housing stock – especially if the current decline in house-building takes some years to be reversed.

Housing conditions for Londoners are therefore going to remain under at least as much pressure as at present. Table 8.3 shows the extent to which London already faces far more extreme pressure than the rest of the country – in particular with two-thirds of those statutorily homeless now in temporary accommodation and nearly one-third of single people in hostels. In addition some 37% of private sector households who are overcrowded live in London. This base level of unmet provision needs to be added to projected growth in household numbers in order to get a realistic view of total housing need in London over the next 20-25 years, to which London planning and housing strategies are directed.

Table 8.3: Estimates of Backlog of Unmet Need

	London	England	London as % of England
Homeless in temporary accommodation	48,000	72,000	67%
Concealed	11,000	54,000	20%
Sharing	26,000	65,000	40%
Singles in hostels	6,000	20,000	30%
Total	91,000	201,000	45%

Source: Holmans *et al* (2008)

8.3 Current Forecasts for the London Economy

Forecasts for the London economy over the next 5-10 years have to start from a judgement as to how the UK and international recessions have already impacted on the London economy, and then consider how long that may be drawn out before the London economy gets back on trend - and whether this is the old path or a new one.

To get some perspective on how prolonged these processes can be, it is salutary to look back at the last downturn, in which it took London employment four full years to get from peak to trough (1989-93) and another eight years of growth before it settled down to anything like the trend rate of expansion. By way of comparison, we are now two years into the employment downturn, though with firm data on (at best) just the first of these. On the conventional GVA-based definition, the recession itself only started at a national level in the 3rd quarter of 2008 - and there is no reason to think it began any earlier in London.

A new set of London forecasts commissioned by the City of London Corporation for this report from Oxford Economics points to a strong (4.6%) reduction in London GVA between 2008 and 2009, followed by another year of stagnation, before London growth returns to anything like its trend rate in 2011 – after just four years from the onset of the crisis (Table 8.4).

In employment terms, the downturn is expected to go on somewhat longer, with decreases of 170,000 jobs between 2008 and 2009, and of 110,000 the following year, before levelling off in 2011. The continuation of job losses into 2010 despite a levelling off of GVA, reflects the contribution of productivity growth, after the past two years in which together they envisage effectively zero productivity growth in the London economy. However there are some difficulties in knowing what 'productivity' changes actually mean in the context of the complex changes in the banks' financial positions - and any retrospective re-assessments.

Sectorally, about 20% of the job losses between 2008 and 2010 are forecast to be in financial services, decreasing by 29,000 and 20,000 in these two years respectively, and representing a 14% contraction overall. Job losses in business services do not appear so large in proportionate terms, with decreases of 63,000 and 33,000 together representing an 8% reduction. But this has to be put in the context of a rising trend in this sector involving expected increases of approximately 20,000 p.a., even through to 2011 this sector would be growing at well below trend, reaching a position where employment would be around 150,000 thousand below trend. Correspondingly, though London manufacturing employment is expected by then to have contracted by 29.000 jobs, that is probably not much more than its trend rate of decline. The other larger job losses, all concentrated in 2008-9 are in construction (19,000 or 10%), distribution (41,000, or 7%) and hotels/catering (23,000, also 7%). By contrast, the main public sectors (administration and health/education) are expected to avoid significant job losses, while those in transport and communication are small.

Despite the fairly sharp contraction envisaged for the present year, these forecasts for London seem less bad than might have been expected, in relation to both general expectations at the onset of this crisis, and the experience of the 1990s. The

employment downturn in particular looks only about half as long, and only 60% as deep as that of the early 1990s. On both counts, however, we believe that actual outcomes could prove worse than is being forecast, with a longer period of contraction during which London employment could show proportionately larger net job losses.

Table 8.4: Oxford Economics Forecasts for London Economy 2008-2019

	2008	2009	2010	2011	2015	2019
Employment ('000s)						
Primary	18	17	17	17	16	15
Manufacturing	220	203	196	191	167	143
Construction	224	210	205	215	242	252
Distribution	613	583	572	578	605	621
Hotels & catering	315	295	292	303	317	324
Transport & comms.	342	335	329	328	341	347
Financial services	344	315	295	296	338	354
Business services	1266	1203	1170	1180	1355	1492
Public admin.	217	220	215	211	219	225
Health & education	754	758	762	755	792	824
Other services	409	411	399	389	414	431
Total employment	**4732**	**4562**	**4462**	**4474**	**4816**	**5039**
Population	7616	7663	7690	7722	7979	8230
Total GVA (£2003bn)	238.2	227.1	227.5	234.2	282.1	327.2
(average) annual % change	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-15**	**2015-19**
Total employment	1.7	-3.6	-2.2	0.3	1.9	1.1
Population	0.8	0.6	0.4	0.4	0.8	0.8
Total GVA (£2003bn)	2.7	-4.6	0.2	3.0	4.8	3.8

Source: Oxford Economics forecasts for the City of London Corporation, August 2009.

Beyond 2010 the OE forecasts envisage the return of strong growth for the London economy, as traditional business and financial services strengths in the international arena reassert themselves. This yields rapid growth to about 2015, slowing slightly thereafter as employment and output catch up with the trend - though at a level somewhat above where our trend projections indicate the peak level of employment would be. For the years 2008-2019 as a whole, overall growth is forecast to average 28,000 p.a., which is rather higher than our trend estimate, but still well below that of previous London Plans. Real GVA growth over this period is forecast at 2.9% p.a., with GVA per worker increasing by 2.3% p.a.

This arguably represents a sustainable long term growth path for the London economy. But, if the London economy were to settle down to such a trend from the levels forecast here for employment in the late 2010s, it would be doing so at something close to a cyclical peak in demand. That would seem to reproduce the pattern that eventually proved problematic during the early 2000s – and this seems over-optimistic. If employment did continue to grow as rapidly as is being forecast during the recovery phase right through to 2019, that probably should be seen as representing the return of boom dynamics in London, rather than the basis for a sustainable growth pattern.

8.4 Post-Recession Scenarios

The projections considered above all operate from the assumption that after the recession, long term competitive and structural factors will re-assert themselves to produce a relationship between London and UK trends which broadly follows that of the last couple of decades.

We believe that this is the most appropriate basis from which to work in constructing baseline 'best guess' estimates of London's prospective path of development over the periods across which urban and infrastructure planners have to work. Despite much talk about the structural implications of the financial crisis that triggered this recession, there is at present no convincing evidence of a likely shift away from the economic fundamentals that have shaped London's broadly successful development since the 1980s. In particular, this assumes the continuation of long run economic growth, and the trend to greater economic openness (in relation to trade, communications, migration and capital flows), with consequentially strong competitive pressures, and a need for sophisticated international capital markets.

There are, however, a number of *different* ways in which London's path might shift as a consequence of possible shifts in the political or economic environmental context, which deserve exploration in scenario form. The most obvious examples at the present time involve some kind of *threat* to the circumstances which have supported London's particularly strong performance in the last twenty five years or so. The potential versions of such a threat discussed in the first four scenarios below involve: a radical tightening of financial service regulation; a retreat from globalisation; a shift toward a more 'sustainable' kind of macroeconomic strategy; and possible emergence of more antagonistic political attitudes in relation to London's role in the UK economy. The fifth discusses the bases for a modified path of development in the city. None of these scenarios are intended as predictions, but rather ways of suggesting the kinds of radical change that might occur. Other, different, options would be equally possible – as is a version of the baseline projections.

8.4.1 A radical tightening of financial service regulation

Under this scenario, both national and international regulators strengthen controls on lending through increased capital requirements and liquidity ratios. Financial institutions are forced to control bonuses and to limit their range of activities. The range of acceptable debt – particularly in the form of mortgages that may be securitised is heavily constrained. Interest rates remain low so the inflow of funds from retained retail savings remains low.

The objective of this approach is to reduce the availability of credit; to limit the risks associated with financial innovation; and to ensure that banks can withstand major financial shocks. However the means for achieving these objectives are not very finely grained, so lending is reduced across many sectors rather than being limited to specific high risk areas.

The impact of regulation on the financial services industry depends heavily on the relative strength and consistency of the regulatory changes in the UK rather than elsewhere. If they better match risk and enable innovation then London could benefit relative to other centres, and as a result activity and employment could be higher than currently projected. This is particularly true if the worldwide shortage of

secondary lending continues. This will call for more bond issues and greater innovation to bring lenders and borrowers together. Equally there are clearly opportunities to make profits in financial turbulence as well as in periods of growth.

However this is not the most likely outcome. It is far more likely that there would be retrenchment and that returns to financial services – while at least in principle becoming more secure - will stabilise at much lower levels. London and other key financial centres could lose out. New centres, less tainted by the banking collapse, expand and take a disproportionate share of new growth in banking and finance. What was seen as a key driver of the London and UK economy becomes a less important element and new sectors need to be identified to make up the growth now lost.

London's economy would, other things being equal, grow less rapidly than in the recent past. Business services, a significantly larger sector, would almost certainly see its growth inhibited by the slower growth in banking and finance. There would thus be an even greater effect on the London economy's growth prospects. Unless other sectors started to grow more quickly than hitherto, overall GDP growth in London could potentially be far slower than in recent years. The possibility of such sectors expanding is considered in the second scenario. However, there is no certainty that if banking and finance grew more slowly then other sectors would expand faster.

8.4.2. A Retreat from globalisation

Periods of economic weakness produce a risk of protectionism and illiberal trade practices. There is also a linked risk of less mobility of labour as countries attempt to protect their domestic population from the impact of recession. Some countries have resorted to protectionist steps, but a wholesale retreat from globalisation has thus far been avoided.

However a long recession could induce a serious bout of protectionism which would be seriously problematic for the UK and London. Flexible regulation, taxation and labour market regulation have given the UK advantages during a period when trade barriers have been removed. Protectionism would reduce trade and thus affect the UK economy. The risk of adverse impact would be greater if there were asymmetric protectionism where Britain did not take steps while other countries did. A number of London's key industries, notably finance, business services, tourism, the media and international transport benefit from relatively open borders and free trade. All these sectors could be damaged by protectionism on any scale.

Recession leading to protectionism would also be likely to reduce mobility – of both workers and capital. However, the impact of continuing recession or simply fewer jobs on migration - as increasingly upturns have tended to be 'job free' – is not straightforward. Both internationally and nationally it depends as much on what is happening at the sources of migration as it does on the London economy.

A somewhat similar picture emerges with international migration – fewer people are coming but fewer people are leaving. This will mean that more migrant households will become more settled; more likely to form separate households, requiring additional housing over time; and perhaps less likely to leave the UK in the future. UK

citizens also become less likely to move to other countries, for example for retirement purposes, reducing the numbers of homes available.

As far as international migration is concerned, this would mean that the incomes of migrant workers would increase until they were more in line with the indigenous population with similar skills. It would also mean that there would be less downward pressure on wages at the bottom end of the scale. Equally those remaining longer would be more likely to make use of local services and to require better housing.

There would also be a change in the mix of the new migrant population as the points system would limit migration from non European countries and increase the skill levels necessary to gain entry to Britain. Here, the UK is moving towards a 'protectionist' position to some extent. The position with respect to students is less easy to predict – in that higher education is booming in the global economic crisis – and students get the right to work for a year after completing their courses. Both factors will increase the importance of students in the London economy and housing market. Thereafter they are expected to leave unless they can fill skill shortages – but it is quite likely that more will try to remain if conditions in their own countries remain difficult.

Capital flows – in particular overseas investment in property - are even more dependent on relative expectation and stability rather than conditions specific to London. At the present time the sterling exchange rate is making it more desirable to invest in the UK – but the loss of asset values across the world is reducing such investment across the board. So the chances are that London will do relatively well but will still observe absolute decline.

Overall, reduced net international immigration to London could lead to greater stability and potentially more integration – which would be seen as a benefit to London and, possibly, make 'social cohesion' easier to deliver. But the wider impact of smaller migrant flows, protectionism and a retreat from globalisation could be profound for London. In the light of the model evolved by policy-makers during recent years, less globalisation would reduce the difference between London and other centres, potentially reducing its relative attractiveness.

8.4.3 Pursuit of a More Sustainable National Economy

The financial and housing market crisis of the late 2000s may come to be seen as having a profound and lasting effect on the nation's thinking, in relation to the economy, consumption and development. In particular, UK governments might seek ways to reduce the vulnerability of the UK economy to the kind of risks exposed by this crisis. This could well involve not only attention to those aspects of financial market behaviour which triggered the recent recession (as in scenario 1), but also underlying structural imbalances, in terms of low savings rates, dependence for growth on credit-financed consumption, and reliance on capital inflows to finance continuing trade deficits. The government might seek to maintain sterling at relatively lower rates in relation to other currencies, so as to encourage manufacturing and to discourage imports, while providing more positive incentives for saving. In this changed environment, even when the economy begins to grow again, consumers may be wary of spending and may not have the means to do so, while others find that they enjoy the challenge of a frugal lifestyle. All are wary of aftershocks.

A number of commentators have argued that the banking crisis offers Britain an opportunity to change its economy radically, towards 'socially useful' and/or 'more sustainable' activity. This would mean that banking is reduced to a more basic consumer service while manufacturing, 'green' industries, culture and design, education and longer-term investment were given more priority. In such a model, the government might intervene and regulate more heavily than in the past, with subsidies to encourage particular sectors. Put simply, the market would be less free and more managed.

The touchstone for many people who promote such a move is sustainability, and it is possible that minor shifts in society which are already evident become major trends: a world of locally-generated renewable power, a slower lifestyle and greater emphasis on quality of life (including 'happiness') might emerge. There may be disaffection not only with bankers and banking products but also with the long hours and conspicuous consumption 'City' lifestyle.

The effects on London would potentially be wide-ranging. Over recent decades it has tended to do best – in aggregate terms, relative to the rest of the UK – in those conditions that would be identified as unsustainable under this scenario (i.e. strong sterling, growing personal debt, trade deficits and manufacturing decline). If Britain attempted to move towards a very different economic model, with wider political/cultural support, London's frenzied and fast-moving economy would be relatively less advantaged, and appear to less strategically important. Certainly, the model of growth adopted by successive mayors would be at odds with the UK's new economic drivers. London would need to move fast away from high value-added traded services and towards lower value-added goods and services. Growth rates would be likely to be significantly slower than in recent years, with less opportunity for regeneration and renewal.

If current talk of 'responsible banking' and of using finance for 'socially useful' purposes were translated into policy priorities, the most distinctive/profitable element in London's economy, the financial services sector, would retain its national dominance, though probably with some shrinkage in scale, and certainly a reduction in the surpluses generated, both for its practitioners and for those dependent on their demands. The wider business service economy – and London's strong competitive advantage in this need not, however, be substantially affected, so long as the agglomeration retained its other basic advantages.

8.4.4 A more critical national view of London's role in the UK economy

A by-product of some of the scenarios outlined above could be that London not only becomes less important to the rest of the UK economy than successive editions of this report have indicated, but that it is perceived as becoming much less so. A reason for this is that the circumstances and/or analyses underlying such scenarios suggest a rather less important role for some of the high profile/glamorous elements of the London economy. This is in contrast to those large parts of its business and financial services sectors which are vital to any kind of national economy, and most productively undertaken in London - though less well known.

In such circumstances, it is possible that national politicians might be less concerned with the city and its progress. Over the short and medium term, such scepticism might well be reinforced by popular resentment of the degree to which those most

directly involved in the downturn seem to have been protected from its worst consequences. If the impact on London continue to be as limited as has been the case over the first two years, and this is perceived as the effect of central government's targeted assistance, governments may be discouraged from further support. In such a scenario, investment would fall and there might be attempts to move key functions to other cities or regions.

This outcome would imply a desire deliberately to re-balance the UK economy away from the region that has dominated it for many decades. It would also suggest politicians wished to signal that London's traditional industries, notably the City, were to be less important permanently. The sectors that have been relatively more important in other regions, notably manufacturing and public services, would be seen as crucial to the country's future success. London would be left to grow more slowly. In the longer term, other cities in Britain would expand to create a more balanced country with a number of centres jointly seen as central to economic progress.

8.4.5 Pursuit of a more diversified economic base for the London economy

Many of the assets which have favoured London's strong development in the recent past have relevance across a very wide range of service activities. Challenges to one or more of its current key activities might then be met by a deliberate attempt to diversify the economy for the longer-term. This could start from consideration of those sectors or sub-sectors that have grown most in recent years – in terms of GVA and/or employment. Over the period 1995 to 2005, above-average GVA growth occurred in 'hotels & catering', 'real estate, renting and business activities', 'education', 'health & social work', 'other community, social and personal services' and, of course, 'financial intermediation'[25]. Employment growth was also significant within these sectors.

'Real estate, renting and business activities', commonly known as 'business services', saw GVA growth between 1995 and 2005 significantly above the London average. This growth was from a high base. Indeed, this sector is almost a third of the whole economy. Business services are to some extent dependent on finance, though such dependency will only be a relatively small element within the total. Within the overall rise in GVA, employment growth over the period was strongest in management consultancy, and - allowing for a dip after 2001 – in computing and IT. Further growth within these business services would be a highly plausible form of diversification, though there is always the risk of over-dependence on this sector.

Growth in 'other community, social and personal services' covers a range of activities such as leisure activities, the media, cultural and private services. This sector would, to some extent, depend on growth across other parts of the London economy, though it would presumably thrive if a diversified economy grew at or above trend. Within the overall total, jobs in recreation, cultural and sport have grown sharply over the decade up to 2005. This sector would thus appear appropriate for assisting to expand the London economy.

[25] Office for National Statistics, *Regional, sub-regional and local gross value added 2008*, http://www.statistics.gov.uk/downloads/theme_economy/GVA_Industry_Breakdown_(Headline).xls

Relative growth in 'hotels and catering' GVA during the period 1995 to 2005 was matched by a sharp increase in employment over the same period, as there was in 'retail'. These sectors, at least in central London, appear to have proved relatively resilient during the post-2008 recession. Rapid growth and development of countries such as China, India, Brazil and Russia potentially provides large numbers of tourists. Faster growth might be possible in these sectors to replace banking and finance activity, though its impacts would be likely to be concentrated in central and inner London.

Health and education also grew, in terms of relative GVA and employment, between 1995 and 2005. These sectors are heavily dominated by public sector activity and there is ample evidence that, given the state of the government's finances, there is likely be a sharp reduction in public expenditure from a number of years after 2010. While it is possible that the private sector elements of health and education (eg foreign patients and overseas students) might expand substantially, State-funded parts of these sectors are likely to see job and GVA reductions in the years ahead. There may be the potential for substantial growth in private health and education, while tax-funded services will probably contract.

Additional and innovative GVA and job expansion could also extend into sectors and sub-sectors of the London economy that have been declining or static in recent years. Parts of manufacturing, particularly those linked to 'green' technology might be stimulated to grow, though it would need to reverse a long-established trend within the capital. Transport, particularly civil aviation, could be expanded although there is already resistance to such a move.

Relative diversification would be likely in the period 2008 to 2010, or to 2011 if the finance and banking sector declines. If there were to be longer-term constraints on the growth of GVA and employment within the 'financial intermediation' sector, policy makers would be faced with the question of how and how far to attempt to stimulate and encourage diversification into the sectors examined above.

8.5 Summary

The immediate future for London is inevitably an uncertain one, because it is embedded in a UK economy, which is making a fragile recovery from recession. In any case, a return to employment growth is unlikely for a couple of years.

Beyond this, the most likely outcome is a return to the trend growth path of the past couple of decades – rather than those of the boom years – involving employment and population growth more or less in line with the UK average, alongside faster productivity growth.

There are some real possibilities, however, for disturbance of this growth path, as a consequence of external reactions to the crisis. These would be largely outside the city's control, but deserve very serious attention, in terms of action to mitigate negative impacts on key long term economic assets and the welfare of Londoners.

Appendix 1: Public Expenditure Calculations

Allocation of expenditure between regions

The method used in this report, consistent with that used in earlier LPUK volumes, uses the total of expenditure 'for' each region. The Treasury has from time to time considered the merits of both the 'in' and 'for' approaches to public expenditure allocation, concluding that each method has potential uses. The 'in' method would be useful in showing where government locates its output and activities. But it does not show which members of the public benefit from the services and expenditure concerned. Thus, for example, expensive medical care provided in a London teaching hospital will often benefit individuals from outside the capital. The 'for' method records the benefits of public expenditure, defined in terms of where the patient lives, not where the service is provided. The 'in' method, on the other hand, will attribute the spending to the home region of the patient.

For the purposes of this study, the 'for', method offers a most appropriate guide to the attribution of expenditure to each nation and region. The purpose of the research is to make an estimate of the amount of public spending benefit in each part of the country and then to compare this with the amount of tax paid. The 'for' method will provide a more helpful answer to this question.

Table 7.1 of the report shows the 'identifiable' total of expenditure within each nation and region, according to the Treasury's most recent PESA calculations. On the right-hand side of Table 7.1 a 'range' of estimated expenditure is shown.

Regional contributions to UK taxation

Sources for the taxes and other revenues shown in this report are derived from a range of sources.

Income Tax totals are taken from Table 3.13 of HM Revenue & Customs's 'Personal incomes by tax year' tables for 2006-07, but using 2007-08 UK tax totals. 2006-07 yields for each nation and region scaled up to 2007-08 UK total. (See:http:www.hmrc.gov.uk/stats/income_distribution/menu-by-year.htm).

Value Added Tax calculations, reflecting both 'residence' and 'workplace' estimates are based on data taken from the Regional Accounts published by ONS and on retail turnover figures for each region reported by the Annual Business Inquiry

National Insurance Contributions are derived from ONS publication *Family Spending*, Table A.35, published by ONS. The methodology adopted this year has produced a marginally different (lower) total for London than in the previous document

Council Tax data are taken from Communities and Local Government Council Tax statistics, adjusted to remove council tax benefit totals which are, in turn, derived from Department of Work & Pensions data on benefit payments and recipients

Non-domestic rate totals are taken from CLG published statistics

Stamp Duty numbers derived from HMRC data published at : http://www.hmrc.gov.uk/stats/stamp_duty/menu.htm.

Vehicle Excise Duty numbers derived from motor vehicle registration numbers taken from *Regional Trends 41 2009*

'Other' revenues allocated between nations and regions on the basis of either residential population or workplace GVA. The purpose of using both a 'population' basis and a 'workplace' GVA basis is to provide numbers that reflect the likely range of revenues contributed by each region. 'Population' based shares will reflect the plausible possibility that 'other' revenues are directly proportional to the share of each region's population. 'Workplace' based shares reflect the possibility that 'other revenues' in London, the East and South East are likely to be higher than a population-based share because economic activity levels are higher because of commuting. Results shown in Tables A.1 and A.2 below

Table A.1 'Other' revenues, 2007-08, £bn

	Council tax	NNDR	Stamp Duty	VED	Corp Tax	Other (GVA)	Other (Pop)	Total 1	Total 2
North East	0.74	0.68	0.2	0.19	1.45	3.4	4.33	6.66	7.59
North West	2.66	2.08	0.75	0.6	4.6	10.21	11.65	20.9	22.34
Yorkshire & H	1.86	1.5	0.55	0.43	2.77	7.42	8.76	14.53	15.87
East Midlands	1.73	1.25	0.54	0.42	2.81	6.6	7.42	13.35	14.17
West Midlands	2.02	1.66	0.68	0.53	3.38	7.84	9.07	16.11	17.34
East	2.59	1.8	1.48	0.55	4.13	9.79	9.59	20.34	20.14
London	3.19	4.71	4.02	0.48	10.13	19.49	12.78	42.02	35.31
South East	4.31	2.89	3.17	0.84	7.18	15.88	14.02	34.27	32.41
South West	2.38	1.42	1.41	0.52	2.77	7.94	8.76	16.44	17.26
'Greater SE'	10.09	9.4	8.67	1.87	21.44	45.16	36.39	96.63	87.86
Scotland	1.86	1.89	0.71	0.42	4.97	8.35	8.66	18.2	18.51
Wales	0.87	0.75	0.27	0.27	1.45	3.71	5.05	7.32	8.66
Northern Ireland	0.24	0.7	0.34	0.15	1.22	2.37	2.99	5.02	5.64
United Kingdom	24.45	21.33	14.12	5.4	46.9	103.1	103.1	215.3	215.3

Source: Her Majesty's Revenue and Customs, Office for National Statistics, CIPFA, Department for Communities & Local Government, Scottish Government, Welsh Assembly Government, Northern Ireland Government

Table A.2 'Other' revenues, 2007-08 (% of total)

	Council tax	NNDR	Stamp Duty	VED	Corp Tax	Other (GVA)	Other (Pop)	Total 1	Total 2
North East	3	3.1	1.4	3.6	3.1	3.3	4.2	3.1	3.5
North West	10.9	9.8	5.3	11.2	9.8	9.9	11.3	9.7	10.4
Yorkshire & H	7.6	7	3.9	7.9	5.9	7.2	8.5	6.7	7.4
East Midlands	7.1	5.9	3.8	7.7	6	6.4	7.2	6.2	6.6
West Midlands	8.3	7.8	4.8	9.8	7.2	7.6	8.8	7.5	8.1
East	10.6	8.4	10.5	10.2	8.8	9.5	9.3	9.5	9.4
London	13	22.1	28.5	8.8	21.6	18.9	12.4	19.5	16.4
South East	17.6	13.5	22.5	15.6	15.3	15.4	13.6	15.9	15.1
South West	9.7	6.7	10	9.7	5.9	7.7	8.5	7.6	8
'Greater SE'	41.2	44	61.5	34.6	45.7	43.8	35.3	44.9	40.9
Scotland	7.6	8.9	5	7.8	10.6	8.1	8.4	8.5	8.6
Wales	3.6	3.5	1.9	5	3.1	3.6	4.9	3.4	4
Northern Ireland	1	3.3	2.4	2.8	2.6	2.3	2.9	2.3	2.6
United Kingdom	100	100	100	100	100	100	100	100	100

Source: See Appendix 1 for a fuller discussion of sources and methods
Note: Total 1 uses 'Other (GVA)' while Total 2 uses 'Other (Pop)'

Abbreviations used in the report

ABI	Annual Business Inquiry
APS	Annual Population Survey
ASHE	Annual Survey of Hours and Earnings
CIS	Community and Innovation Survey (EU)
CML	Council of Mortgage Lenders
DBERR	Department for Business, Enterprise and Regulatory Reform
DBIS	Department for Business, Innovation and Skills
DCLG	Department for Communities and Local Government
DCMS	Department of Culture, Media and Sport
EU	European Union
FTE	full-time equivalent
GDP	Gross Domestic Product
GLA	Greater London Authority
GSE	Greater South East (here defined as Greater London plus the South East and East of England Government Office regions)
ILO	International Labour Office
JCP	Job Centre Plus
LABS	London Annual Business Survey
LDA	London Development Agency
LFS	Labour Force Survey
LPUK	London's Place in the UK Economy (City of London reports)
NES	New Earnings Survey
NESS	National Employer Skills Survey (Learning and Skills Council)
NHS	National Health Service
NOMIS	National Online Manpower Information System (ONS)

OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
OLC	Outer London Commission (Mayor of London0
OMA	Outer Metropolitan Area
ONS	Office for National Statistics
PESA	Public Expenditure Statistical Analyses
R&D	Research and Development
REPI	Regional Economic Performance Indicators (DBERR/DBIS)
RICS	Royal Institution of Chartered Surveyors
ROSE	Rest of the South East (Standard Statistical Region, equivalent to current South East Government Office Region, plus Herts, Essex and Cambridgeshire, now included in East of England GO region)
S106	Section 106 (of Town and Country Planning Act 1990)
SIC	Standard Industrial Classification
TfL	Transport for London
VAT	Value-Added Tax

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The City of London Corporation

The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the City of London Corporation provides.

Older than Parliament itself, the City of London Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the City of London Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and around it.

The City of London Corporation, however, never loses sight of its primary role – the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility – and it seeks to perpetuate the City's position as a global business leader.

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