Getting London back on track

Judith Ryser reports on the recent LSE seminar on London in the recession.

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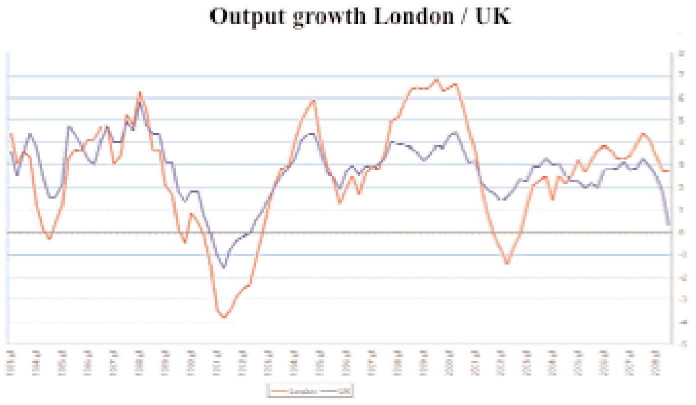
London is right to want to go back on track, but it has to happen with realism and not without mitigating the worst aspects of inequality and volatility.

Crisis, what crisis? London is ahead of the country. The academics and economic analysts who spoke at the seminar on London in the Recession at the LSE on 27 May 2009 showed that London is doing relatively better - or at least not worse – regarding house price collapse or empty office space. Its retail is manifestly booming and while unemployment is rising in some areas, new jobs are coming on stream all the time. Public transport is used to full capacity, notwithstanding all the stoppages.

History shows that London's demise has been announced time and again, but thanks to bankruptcy and property booms London has bounced back after each disaster, the Great Fire, the devastation of World War Two, the oil shock and now the melt down of the financial sector. Isn't 15 years of uninterrupted economic growth proof enough for the robustness of the Anglo-Saxon model, its flexibility, high debts and low taxation? Who needs more regulation, state interference, redistribution? Or so the adage went. Why should the number one capital market join the euro-zone? Globalisation and a skyscraper townscape suit London and its self-image of modernity and world power.

Nevertheless, there is an economic crisis out there in the world. The question is how it will affect London and its competitive advantage.

Up till now traded goods and export based sectors are suffering most in the current economic slump, while there is little regional differentiation in the UK within parts of the service sector, including consumer services. Distribution activity has fallen, but recent data is yet to appear to check what happened in the financial and business, hotel and catering, transport and storage sectors after the so-called 'third shock'. Meanwhile, restructuring of the banking sector, the devaluation of the pound, together with other government interventions may protect London's weaknesses. Yet, declining asset values, including house and land prices and the decimated development industry may hamper much needed infrastructure development.

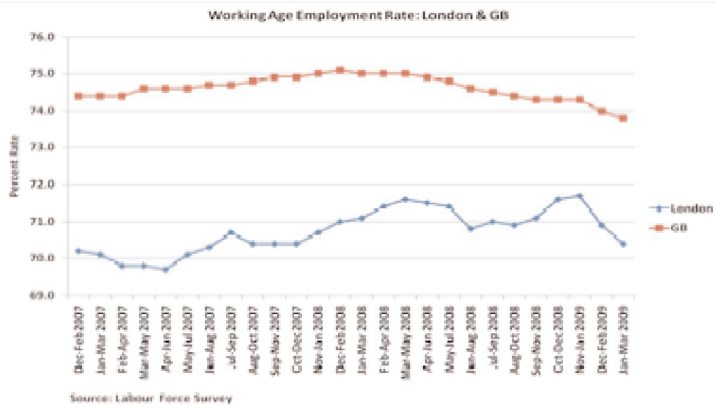


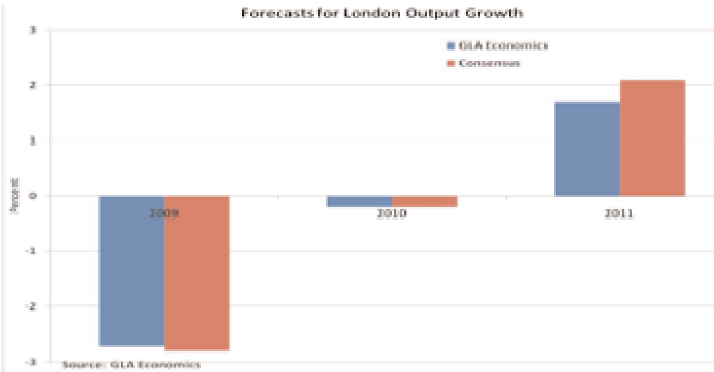
London's volatile economic cycles compared with the UK as a whole. Source GLA Economics. Presented by Duncan Melville, Roger Tym and Partners

During the early 1990s downturn Ian Gordon, one of the protagonists of the current research on London's economy at the LSE Spatial Economics Research Centre funded by HEIF (Higher Education Innovation Fund), focused on the volatility of London's economy. He found that since the 1980s its cyclical fluctuations were 70 per cent greater than in the UK service sector as a whole. Present cyclical effects are as yet unknown and thus the longer term fait of London's economy still lies in the balance.

The mood was upbeat though. Even if new regulations may restrict the financial sector, London's longer term future is assured by its agglomeration economies, diversity, flexible labour markets, strong international connections and high quality skills. This does not mean that no action is warranted. Sliding into protectionism would weaken London substantially and certain sub-sectors may need fostering. The seminar aimed to shed more light onto such potential actions.

Duncan Melville of Roger Tym





and Partners provided the background statistics to substantiate this optimistic tenor. However, some voiced reservations and found the recent sharp fall in London's employment a cause for concern.

Even if the relative position of London looks good, 2009 undergoes significant contraction overall in absolute terms in output growth, which will remain stagnant in 2010 and is expected to grow again only in 2011.

Melville evaluated measures to tackle worklessness in London and concluded that only on the job training programmes in real private sector jobs were worth pursuing to avoid deadweight, substitution and displacement of jobs. Clearly, despite all these rescue programmes the weaker are bound to be hit harder during this long recession which will boost the informal economy. This may have territorial as well as political repercussions.

Anthony Browne, Policy Director for Economy and Business, appointed by the Mayor of London considered optimism vital for consumer confidence. How to achieve this is another matter in the light of 190,000 predicted job losses for 2009, decline of financial and property markets, and another 5 per cent loss of manufacturing jobs in London. All this calls for action. The mayor pledged to pay GLA's bills promptly and to assist SMEs with advice, subsidised transport fares and low rent business premises. Acknowledging London's limited powers the mayor set out a longer term economic strategy replacing displacement failures with punctual subsidies, removing barriers (imposed by planning?) and betting on winners by promoting tourism abroad, enhancing heritage and turning London into a centre of excellence for the creative industry. Improving London's environment, public transport and housing is also believed to contribute to its competitive attractiveness.

The current mayor's greatest ambition is to turn London into a forerunner of low carbon technology, in the form of carbon trading, which is not everybody's solution though to curb adverse manmade effects on climate change. What these upbeat strategies were missing in the view of some was twofold. They failed to recognise the weight of London's own market, driven by well over 8 million people, the size of many countries, and they omitted the role of the low paid in the success of London. Both are affected by economic recession and would need recovery policies of their own. The poverty trap is a particular black spot on a rich world city which needs to secure a living wage for all.

London would be better off if it shifted its fixation on population and economic growth.

Christine Whitehead, a housing expert at the LSE explained how housing demand tends not to be met in London, even despite current depressed demand and preparedness to buy. Housing led the current crisis, but due to structural changes in private house construction housing is ill equipped to redress the situation. Public sector funding is curtailed by lack of leverage, although mixed tenure (intermediate housing) is on the uptake in London. Only proactive fiscal measures could assist the housing sector to become part of the economic recovery and to combat what amounts to regulated rationing. Solutions from the audience included involvement of corporate institutions in housing finance and uptake of mobile homes now that land prices were suppressed. However, the former unlikely in the light of investment uncertainty and the latter a recipe for urban sprawl.

Richard Woolhouse from the Centre for Cities analysed the anatomy of the current crisis and its impact on London compared to other UK cities. In the light of the car manufacturing meltdown the onslaught of the economic crisis on London's financial sector, its falling house prices and job losses was well within London's resilience. Woolhouse was the only one who ventured into forecasting. He predicted a further squeeze of the public sector until 2011, although this sector was supposed to induce recovery. In London, employment in the business services is expected to take off more than in other sectors which may take ten years to recover to their recent buoyant levels. Reversal of house price falls, office rents and employment will differ widely between London Boroughs. The City and the West End, and to a lesser degree its neighbours are standing the best chances. It was not clear what effect reducing public services would have on private sector self-recovery. Depressed consumer spending (e.g. home improvements instead of house or car purchase) are worsening the crisis, unless public capital expenditure is being brought forward.

In conclusion, Ian Gordon gave a brilliant analysis of what could happen to London when the bust is over. He based his arguments on the long view which he has acquired during decades of research on London and its economy.

He was critical about 'knee jerk' responses: expecting that things would get back on track; that all bets were off due to structural change; or that things needed to be different in future. He compared annual percentage changes of trends between London and the UK in key areas: population, household formation, employment in manufacturing and services, graduates, gross value added of the housing stock, weekly earnings, unemployment rate, employment rate and house prices and demonstrated that London was doing relatively well compared to the country as a whole on average.

This was due to structural differences between the growth of the London economy and that of the UK. London's economy grew because of productivity rather than increase in jobs, boosted by a mainly imported graduate workforce. A modest employment growth occurred in existing growth sectors, and individual activities were growing faster than elsewhere. Equally, London's earnings grew faster than in the UK as a whole, albeit not necessarily in real terms, nor like for like, while employment rates fell against national trends. London's economy was able to upgrade itself because it was benefiting from a supportive context, but its expansion was neither persistent nor fast in numeric terms.

He explained this situation by revisiting the structural changes which had occurred in London turnaround of the 1980s. Manufacturing declined continuously and the growth of the financial and business services became dominant. During that time London's jobs shifted from net decline to net growth. These two factors constituted an intelligible basis for radical restructuring. However, the wider implications of these changes took almost a decade to work themselves through and become apparent. The only short term response which brought about the 'boom–bust' cycles was a speculative over-reaction to the Big Bang in the financial sector.

The current crisis cannot be explained in similar terms. The only structural changes would emerge from state responses if concerted counteractions failed. The question is what ought to be different at the end of the current economic crisis. In Gordon's view the UK economy would benefit from better regulation and less short term orientation of the financial services. Similarly it would need more saving and less credit financed consumption of imports. Moreover, some rebuilding of manufacturing would be necessary, possibly via devaluation.

The implications for London would be to make sure that bail-outs would not lead to unsympathetic over-reactions against London. Their proper use though could enhance the sustainable growth of London's economy, although the main benefits would accrue to the economy of the Rest of the UK. More saving and rebuilding of manufacturing would be liable to slow London's growth relative to other regions.

In conclusion, Gordon asked what better measures are available to improve the future of London's economy which he considers too complex for anyone to comprehend though.

London is right to nurture a diversified economic base. Yet, it should not overrate the importance of the financial sector and shift to a more broadly based (marketed) service economy. The volatility of London's economy should not only serve the financial sector but be exploited in favour of a more broadly based combination of cutting edge positions and reliance on intangible assets.

It does not make sense to stop or reverse London's contraction of industrial employment in a congested city. Similarly, the reversal of the public sector drift away from London is neither compatible with market based comparative advantage nor politically likely. Innovative and high quality activities should be encouraged anywhere in business and consumer services instead. This is a concrete challenge for London, considering that the locus of success is footloose and requires constant vigilance.

London would be better off if it shifted its fixation on population and economic growth. During current revision, the London Plan would benefit from revisiting its forecasts and/or targets in these areas, although these objectives are political and not necessarily related to the current economic crisis.

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State of London Debate '09

The ninth "State of London Debate" was a somewhat sober affair compared to the populist circus under the previous mayor, possibly in keeping with the mood of our mounting political and economic crisis, *writes Judith Ryser*. This annual statutory event, backed by the Mayor's Annual Report enables London citizens to hold its mayor to account. What had disappeared were Ken's self-congratulatory groupies; what remained unchanged was the QEII venue, the very visible attention to disablement, the ominous bunch of hacklers, the tea and biscuits and holding workshops on themes which work up Londoners: crime, inadequacies of public transport, affordable housing, jobs and multiculturalism.

A carrot for the audience was that by curbing previous city hall propaganda and reducing the press office Boris Johnson was able to leave the precept unchanged for 2009. He was confident that a £billion savings could be realised by 2012. Yet, maintaining political point scoring at a reasonable level the Mayor managed to keep the hacklers in check with his good humoured and responsive presentation. It was a pep talk though.

The mayor's pet themes

Boris Johnson added his own pet themes. Besides his belief that he would convert all Olympic Games sceptics into converts, he went for cycling above all. His intention is to set up a 'velib' scheme inspired by Paris, putting 6000 bikes into circulation in 2010 in 40 locations for 40,000 daily trips. £110m for cycling will provide 66,000 extra parking spaces, improve cycle lanes and a lot more.

This was an important building block of his green ambition to curb CO_2 emissions in London by 60 per cent by 2025. The main measures would be directed at the building stock which generates 71 per cent of London's CO_2 emissions and would also bring savings to fuel bills. CO_2 pollution from aviation needed to be curbed as well. The LDA was going to invest £18m to reduce CO_2 emissions and expand green skills to make London the leader in green technology.

Economy and crime prevention

Boris Johnson reassured the audience that London is well equipped to ride out the economic storm, which was attenuated by the falling pound and the contribution of tourism to retail spending. He was convinced that London was going to lead the UK out of recession. However, measures would have to be put into place now.

He pledged to assist with jobs which were both declining and growing. He targeted underprivileged youngsters for whom he set up a number of schemes which should keep them out of mischief. '*Time for Action*' managed to get 5100 knives off the streets; travel to work is subsidised for 3000 apprenticeships; '*Project You*' in Croydon aims at better cooperation with uniformed agencies; £20m are made available to encourage youngsters to take up sports.

Public transport

He underlined the achievements in public transport and his intention to lobby government to invest in CrossRail despite the recession, as it would create 1400 jobs and make sure that London remains globally competitive. CrossRail should not take place to the detriment of ongoing underground improvements and integration with over-ground rail, including regeneration and completion of its orbital parts.

He is keen to keep the upward trend of public transport use going and extended the freedom pass to 24 hours. Improving quality and safety of public transport is paramount. This means adding air conditioned carriages, increasing frequency overall and gradually removing bendy buses. The outcome of the Routemaster competition for hybrid powered iBuses will be known by the end of the year when buses with much improved IT communication will be developed to be in production by 2012. Meanwhile, 60 buses whose CO_2 emissions are reduced by 30 per cent are already in operation and 300 more will be commissioned by 2011.

Another green offensive is to push electric vehicles. City Hall will provide funding for London Boroughs to install 100 electric charge points. It will also lobby private business to provide 25,000 charge spaces at London's workplaces, retail outlets, streets, public car parks, station car parks, etc by 2015 and electric vehicles should be made available in car clubs.

London's 32,000 taxis should be converted into electric vehicles though without suggesting how, and the Mayor made no mention about using electric vehicles for City Hall and the London boroughs. He estimates that this programme would cost £60m. He pledged one third from the ratepayers while 2/3 are expected to be shared between the government and the private sector.

Tree planting is progressing with 1500 in the ground already of the 10,000 to appear along highways. Beautifying the city generally was considered an important pull factor and making Oxford Circus and Exhibition Road more user friendly was a start.

Other ideas

More outlandish ideas from his Sustainable Development Commission and others are to grow food on 2012 sites in London, convince Londoners to drink tap water in restaurants, look after the poorest somehow, and reverse the growing gap between the rich and the poor.

Boris Johnson confirmed that freedom of expression for all factions of London's diverse population formed part of its attraction as world city, a status he was determined to maintain and enhance.