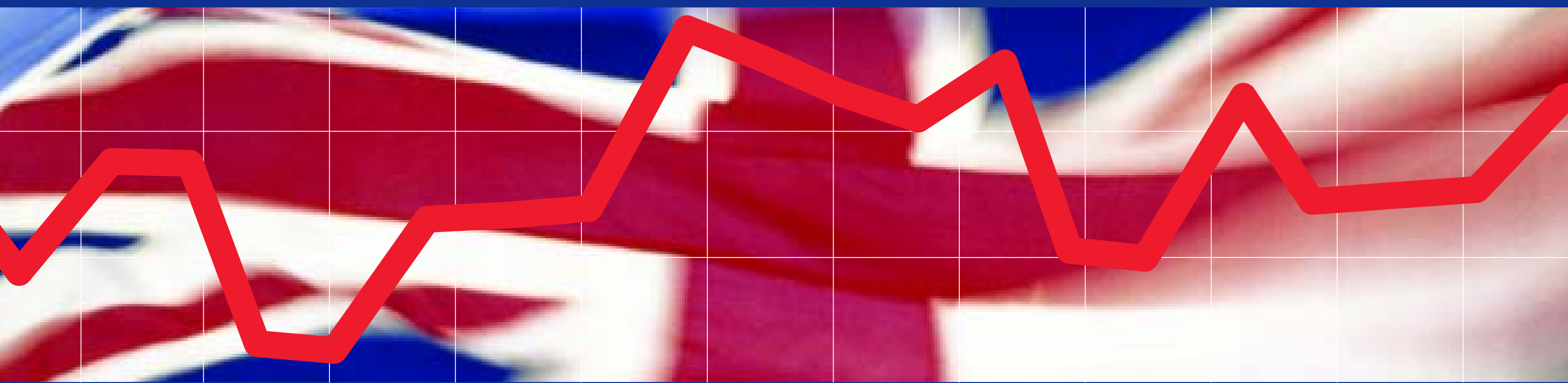
GROWING TOGETHER
LONDON AND THE UK ECONOMY

GLAECONOMICS



Transport for London

MAYOR OF LONDON

LONDON DEVELOPMENT AGENCY

Published by
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA
www.london.gov.uk
enquiries 020 7983 4000
minicom 020 7983 4458

ISBN 1 85261 706 3.

Cover montage:
Alamy/John Wilson

This publication is printed on
recycled paper.

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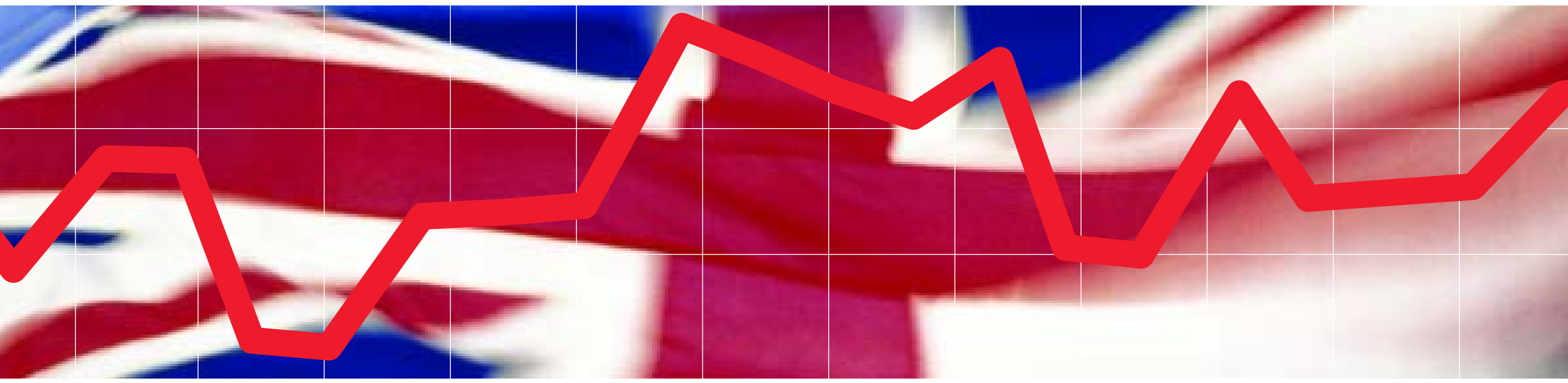
GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics forms a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.



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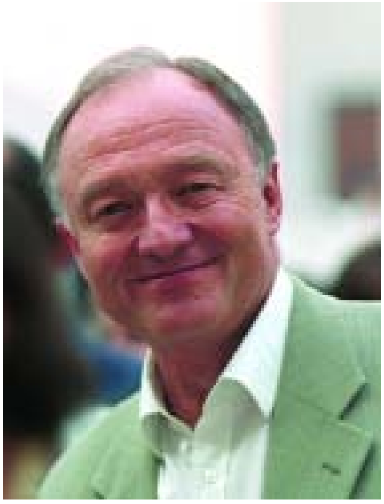
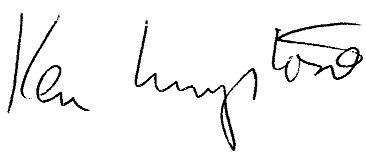


Two wrong views are sometimes repeated with regard to London's economic relationship with the rest of the UK. One is that London grows at the expense of the rest of the country, or at least those parts outside southern England. The other view is the opposite: London is *the* driver of the UK economy on which the rest of the country is entirely dependent. Both views are mistaken. This report shows that in reality the relationship between London's economy and the rest of the UK's economy is one of mutual and positive interdependency. Its analysis shows that economic growth in London and other parts of the UK have moved in tandem for at least the last 20 years. The UK will not prosper without a prosperous London and London will not prosper if the rest of the country's economic performance is not strong. The channels through which London influences the UK are numerous and this report analyses some important ones.

Overall more people migrate out of London to the rest of the UK than move in. London enjoys a net inflow of young people early in their careers, but our analysis indicates that individuals tend to move out of London to other parts of the UK later in their careers taking their skills and experience with them to the benefit of these regions. Hence there is no one-way brain drain to London as is often claimed. Commuters from outside London play an important role in the London economy – filling just under a fifth of London's jobs. The other side of the coin is that around one in ten employed residents in the South East and East of England regions rely on London for work.

The structure of London's economy is very different to that of other parts of the UK. In particular London has a much larger concentration of wholesale financial and related professional business services. This specialisation creates the opportunity for London and the rest of the UK to benefit from inter-regional trade. London exports financial and business services to the rest of the UK. As the customers for these are other businesses, the world-class performance of these activities in London is of direct benefit to the corporate performance of UK businesses. London's role as a premier world city reinforces the performance of its financial and business services and also benefits the UK generally by acting as a gateway for investment and people (both international migrants and tourists).

London continues to generate more in tax revenues than it receives in public spending. Our analysis of this - London's tax export - since the late 1980s shows that it is greater whenever London's economy is stronger. Thus a stronger London benefits the rest of the UK by providing funds for better public services throughout our nation. This reinforces the points I made in the *Case for London* – my submission to the Government's 2004 Spending Review – that investment in London to support its continuing economic vitality is of benefit not just to London but to the UK as a whole.



Mayor of London
January 2005

Executive summary

There are two common and opposite views of London and its economic relationship with the rest of the UK. One view is that London's growth is at the expense of the rest of the UK. Alternatively London is simplistically portrayed as the one motor of UK growth, and the impression is given that the rest of the UK's economy is somehow entirely dependent on the economic activity that occurs within the capital. Both views are mistaken: the relationship between London and the rest of the UK is one of mutual interdependency and mutual benefit. Economic growth in London and other parts of the UK have moved in tandem for at least the last 20 years. The channels through which London influences the UK are numerous and this report analyses some important ones as follows:

- Migration and commuting flows between London and other parts of the UK
- Trade and economic specialisation
- The benefits of London's world city status
- London's tax export which provides funding for public services in the rest of the UK.

Migration and commuting

Overall, more people migrate out of London than move in. London enjoys a net inflow of young people early in their careers, but individuals tend to move out of London to other parts of the UK later in their careers, taking their skills and experience with them to the benefit of those regions. Hence there is no one-way brain drain to London sucking talented individuals out of the rest of the UK as is often claimed.

Data from both the 1991 and *2001 Censuses* and the *Labour Force Survey* suggest that both *in commuting* to London and *out commuting* from London for work have increased in the last decade. With out commuting from London up by more than in commuting, net commuting into London has fallen by around 36,000 from just over half-a-million people to just under half-a-million people, according to census data. Commuters from outside London play an important role in the London economy - filling just under a fifth of London's jobs. In 2003, it is estimated that commuters contributed at least £28 to 33 billion to the London economy. The flip side of the coin is that around one in ten of employed residents in the South East and East of England regions rely on London for work. *In commuters* to London are also more likely to be in higher paid professional and managerial jobs than London's residents who also work in the capital.

A notable finding is that net commuting to London was stable during the years 1997 to 2000, a period when London experienced very rapid output and employment growth. In addition, there was an increase in the net outflow of migrants from London to the rest of the UK during this period. Hence London did not achieve rapid growth during this period at the expense of the rest of the UK by sucking in increasing amounts of labour from other parts of the UK.

Trade and economic specialisation

The structure of the London economy is very different to that in other parts of the UK. In particular London has a much larger concentration of wholesale financial services and related professional business services, and a smaller manufacturing and public sector. This differing specialisation creates the potential not only for London, but also for the rest of the UK to benefit from inter-regional trade. A detailed analysis of the areas of economic activity that London specialises in, relative to the rest of the UK, reveals that London specialises in a broad range of business services and that this is the largest broad area of specialist activity in the London economy. Financial services are London's second largest area of activity. London is also a centre of the creative industries, such as media, publishing, and the arts, and of the leisure industry. Many of London's specialisations are interrelated and this degree of integration leads to a virtuous circle raising economic performance across all the sectors. The concentration in Central London of related business and financial services leads to agglomeration economies boosting overall business performance and productivity.

In line with the specialisation noted above, London is a net exporter of financial and business services to the rest of the UK. As the customers for these are other businesses, the strong performance of these activities in London is of direct benefit to the performance of UK organisations. London's exports to the rest of the world outside the UK are strongly skewed towards services rather than goods. London accounts for at least one-third of the UK's service exports but for less than five per cent of UK goods exports. Hence London's exports tend to complement rather than compete with exports from other parts of the UK.

London: A world city

London and indeed other cities are often described as world cities but without it being clear on what evidential basis this claim is being made. The last few years have seen the notion of a world city being given substance as a city that houses financial and related business services that allow the coordination of economic activity across the globe. London's position as a world city of the first order alongside New York, Paris and Tokyo has been established empirically by research analysing the presence in cities of global finance and business services firms, and the intra-company links between these types of firms in different cities. London is shown to have significant links to all the major regions of the world economy emphasising London's worldwide economic linkages.

London is a global centre of business and finance:

- London accounted for 43 per cent of global foreign equity trading in the first nine months of 2004
- Half of European investment banking is conducted in London
- London accounted for nearly a third of global foreign exchange trading in April 2004
- London is a major centre for international legal services with over 200 foreign law firms in London in 2003.

The fact that London is a global centre for financial and business services means that demand for such services is not constrained or limited by local or national demand. The potential magnitude of global demand is a key driving force supporting the concentration of these activities in London. This leads to greater agglomeration effects boosting the performance of the finance and business service sectors in London to the benefit of UK businesses seeking finance and using business services located in London. This is true whether businesses are seeking finance or imaginative advertising and packaging. London's international role also benefits the UK by acting as a gateway for investment and people, both international migrants and tourists.

London's tax export

London continues to generate more in tax revenues than it receives in public spending. In 2002/03, it is estimated that London paid between £2 billion and £9 billion more in tax than it received in public spending. This estimate is well down on the £9 billion to £15 billion that was calculated for 2001/02. However it needs to be seen in the context of the much sharper slowdown that the London economy experienced in 2002 relative to the rest of the UK economy and the fact that overall UK public sector net borrowing moved from –£15 billion in 2000/01 to £25 billion in 2002/03.

Our analysis of London's tax export since the late 1980s shows that it is greater when London's economy is stronger. Thus a stronger London benefits the rest of the UK by providing funds for better public services throughout the UK. Most notably, the calculations suggest that a very large part of the UK public sector financial surpluses of the late 1990s and early 2000s results from London.

Conclusions

London's contribution to the performance of the UK economy rests on the distinctive roles it plays within the UK. London attracts young people in the early years of their careers but this is no one-way brain drain to the capital. Rather, London is a training ground for young people, and the UK outside London gains when these individuals subsequently move out of London later in their careers taking their skills and experience with them.

London specialises particularly in a range of financial and business services and the quality of these services is second to none in the world. London's role as a world city and global centre of business and finance reinforces the capital's performance in this regard. It exports these services to the other regions and countries of the UK. As UK businesses are the customers, the world class nature of London's producer services is a key competitive asset for the UK economy. London's orientation towards a distinctive set of service activities means that its international exports tend to complement rather than compete with those from other parts of the UK.

The more successful the London economy the greater is the surplus of tax revenues over public spending in London available to fund public services elsewhere in the UK. This points to the need to continue investing in London to maintain its economic success. Failure to invest appropriately in London would directly injure not just London but the whole country.

Chapter 1: **Introduction**

Key points:

- **Over the last two decades, economic growth in London and the other regions and countries of the UK has moved up and down in tandem.**
- **Thus faster economic growth in London comes not at the expense of other parts of the UK. Rather it tends to coincide with faster growth elsewhere in the UK.**

There are two common and opposite views of London and its economic relationship with the rest of the UK. One view is that London's growth is at the expense of the rest of the UK. Alternatively London is simplistically portrayed as the motor of UK growth, and the impression is given that the rest of the UK's economy is somehow entirely dependent on the economic activity that occurs within the capital. Both views are mistaken: the relationship between London and the rest of the UK is one of mutual interdependency and mutual benefit. The *2003 London Annual Business Survey* illustrates this. It reports that 32 per cent of total sales by London companies are made to customers in the rest of the UK, and that 34 per cent of purchases by London companies are from the rest of the UK.

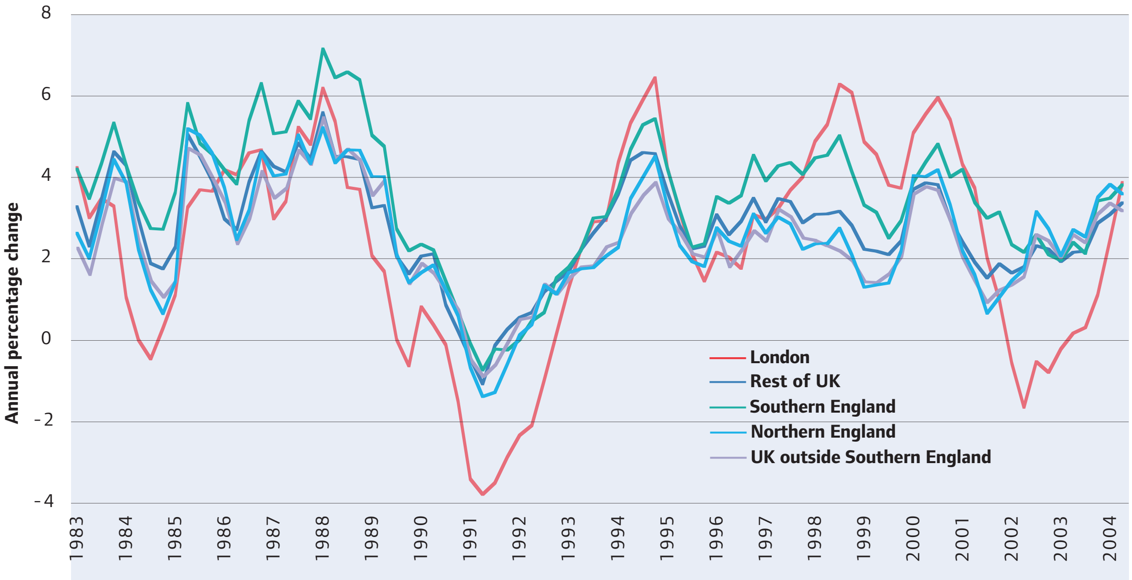
The positive relationship and mutual interdependence between economic growth in London and the rest of the UK is shown in Figure 1.1. Comparing economic growth in London and the rest of the UK, it is clear that they move in broadly the same direction over time. This is also true if one compares economic growth in London against the more detailed breakdowns of the UK. Figure 1.1 shows growth in Southern England (the regions of the South East, East England and the South West), Northern England (the regions of the East and West Midlands, Yorkshire and Humberside, North West, and the North East) and the UK outside of Southern England (the regions classified as Northern England, plus Scotland, Wales and Northern Ireland). In all cases the growth rates of London and other parts of the UK tend to move up and down together. Despite the reverse often being suggested, this trend is true for Southern England and for the rest of the UK.

Another way of demonstrating the positive economic interdependence between growth in the London economy and other parts of the UK is to consider the overall correlation between growth rates in London and the other regions and countries of the UK. This is shown in Table 1.1. If it was the case that London tended to grow at the expense of other regions then the correlation coefficient between growth in London and the other regions and countries of the UK would be negative. Alternatively, if London and the other parts of the UK tend to grow or contract together, then there would be a positive correlation coefficient.

In fact the correlation between output growth in London and output growth in the other regions and countries of the UK is uniformly positive. Not surprisingly this correlation is especially strong for the two regions immediately adjacent to London – the South East and the East of England. It is lowest for the North East and Scotland. Beyond the Greater South East the strength of the correlation between growth in London and in other parts of the UK does not seem to follow any obvious pattern. It certainly does not seem to simply decline with distance from London in any obvious manner, for example, the correlation with growth in the East Midlands is much lower than with growth in the West Midlands – two regions roughly the same distance from London. Perhaps part of the answer is that the West Midlands has a major city at its centre while the East Midlands does not. But at present this is simply speculation and the determinants of the magnitude of the correlation between growth in London and in other parts of the UK requires further research, which is beyond the scope of this report.

While the strength of the relationship between growth in London and growth in other parts of the UK varies,

Figure 1.1: Real output growth: London, rest of UK, Southern England and Northern England



Source: Experian Business Strategies and GLA Economics it is apparent that the correlation is always positive and that London does not grow at the expense of other parts of the UK.

Experian Business Strategies have simulated the impact of a fall in London's employment of around three per cent (121,000) concentrated in its area of greatest relative specialisation – financial and business services. The results indicate that a further two per cent of jobs (86,000) may be lost in London through multiplier effects (reduced spending by workers who were previously employed plus reduced purchases by firms with lower activity) and around 0.8 per cent of jobs may be affected across the rest of the UK (175,000). While these estimates should not be treated as precise they do indicate that because of the various linkages, London and the rest of the UK have a positive relationship and that a deterioration in London's economic performance would harm rather than help the rest of the UK.

Table 1.1: Correlation between economic growth in London and the rest of the UK, 1983-2004

Region	Correlation Coefficient
South East	0.80
East England	0.81
South West	0.64
East Midlands	0.45
West Midlands	0.73
North West	0.73
Yorkshire and Humberside	0.56
North East	0.22
Wales	0.55
Scotland	0.27
Northern Ireland	0.36

Source: Experian Business Strategies and GLA Economics

Table 1.2: Percentage change in employment, 1989-2001

Regions and countries of Great Britain	% change
South East	23.7
South West	21.2
East of England	18.8
Scotland	17.4
London	15.3
East Midlands	12.5
Wales	11.7
West Midlands	10.8
Yorkshire and the Humber	10.2
North West	9.9
North East	7.2

Source: Office of National Statistics

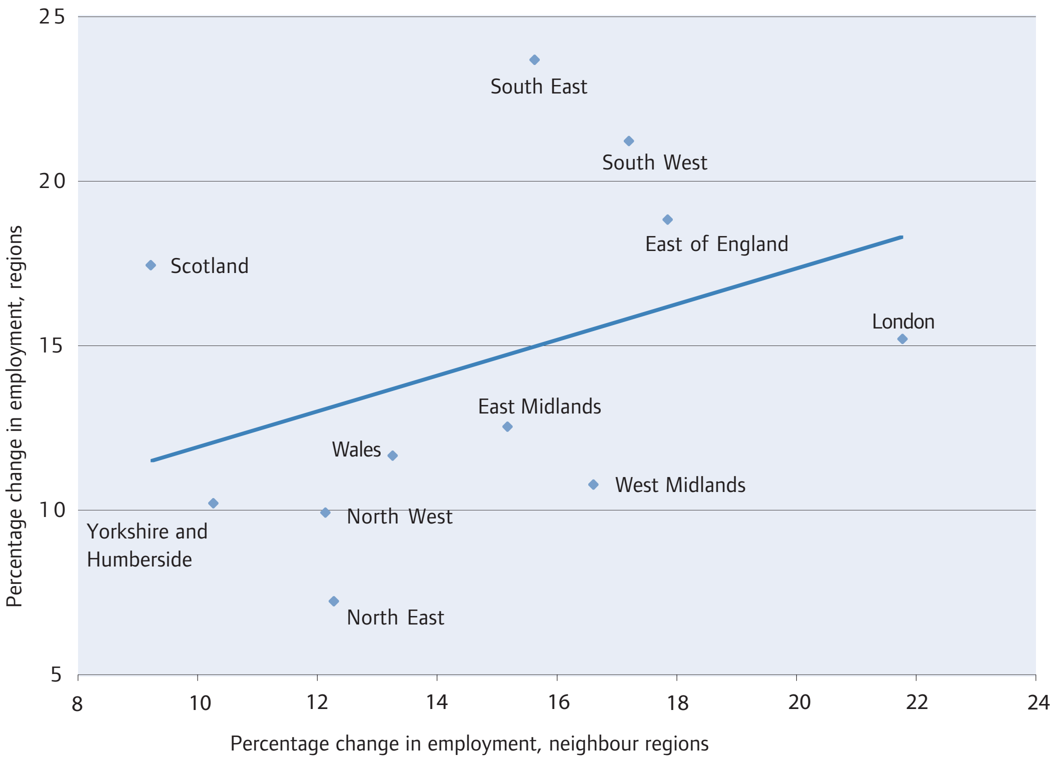
This report also analyses how medium-term growth in any particular region of the UK stimulates growth in neighbouring regions. Specifically, the percentage change in employment in the regions and countries of Great Britain over the 1989-2001 period is examined. This period is sufficient in length to bring out any underlying structural links. Employment is chosen rather than output, because at the regional level, estimates of employment are probably the more reliable. Indeed, to a non-trivial extent, estimates of output are based on employment information. Table 1.2 sets out the percentage change in employment in the regions and countries of Great Britain over the 1989-2001 period.

A region's neighbour is defined as a region that shares a geographical border. Figure 1.2 plots the relationship between the percentage change in employment in a region and that of its neighbours.

Figure 1.2 suggests that there is a positive relationship between the two variables, but that it is not very well determined. This relationship was further examined using advanced statistical or econometric analysis. The best results were obtained by excluding Scotland from the analysis. Scotland is rather isolated from the rest of the UK, with a very considerable distance separating its main areas of economic activity from its neighbouring main areas. This could provide a rationale for its exclusion. The results of this analysis of England and Wales indicate that a region's employment growth is boosted if neighbouring regions grow faster but the effect is not particularly statistically robust. The detailed results of this analysis are shown as Table A1 in Appendix A.

A positive but weak relationship should not

Figure 1.2: Percentage change in employment UK regions and neighbours, 1989-2001



Source: Office of National Statistics and GLA Economics' calculations. Note: The solid line is the non-linear curve of best fit.

really be surprising. The geographical area over which similar types of economic activity take place, which are connected by the range and types of their activity, is usually thought to be considerably smaller than an official UK region. For example, travel to work areas are defined geographically as being areas in which 75 per cent of the people who live there also work there and in which 75 per cent who work there also live there. Travel to work areas might be thought of as local labour markets or the geographical scale over which similar types of economic activity take place. There are 297 travel to work areas in Great Britain compared to just 11 regions and countries. They vary in size considerably, from large, generally rural areas to smaller, urban areas. In any event, they are smaller than the sizes of the regions.

The conduits through which London and the rest of the UK interact are many and varied. This report considers a range of important interrelationships. Chapter 2 looks at migration and commuting between London and other regions. Chapter 3 considers trading links between London and the rest of the UK, the pattern of London and the UK's international trade, and how these are affected by London's particular economic specialisation. Chapter 4 considers London's role as a global city. Chapter 5 looks at the difference between taxation raised and public spending in London. It shows that London makes a substantial net contribution to the UK's public finances helping to fund public services in other parts of the UK. Chapter 6 concludes the study and summarises the main findings.

Chapter 2:
Migration and commuting

Key points:

- Overall more people migrate out of London to the rest of the UK than migrate in from the rest of the UK.
- London receives a net inflow of young people and graduates.
- This is no one-way brain drain. The evidence suggests that people tend to migrate out of London later in their careers taking their skills and experience acquired in the capital with them.
- In commuters fill just under a fifth of London's jobs – consequently around one in ten of the employed residents of both the South East and the East of England regions depend on London for employment.
- The rapid growth in the London economy in the late 1990s was achieved without sucking in either domestic migrants or commuters.

Migration and commuting are interrelated. An individual living in Exeter for example, who obtains a job in London can either migrate to London or alternatively reside outside of the capital but within commuting distance. It is also well accepted that many people decide to migrate out of London in particular to the South East or East of England regions but commute back into London for work.

Most changes of residence by individuals and households occur over quite short distances. Previous studies of geographical mobility and inter-regional migration in the UK have suggested that around ten to 12 per cent of people of working age change their address each year but only one to 2.5 per cent of people migrate between regions[1]. Over short distances most moves are associated with relationship formation or break-up, other family reasons, for housing reasons, or the desire to move into another area rather than for job related reasons. In contrast for movement between regions, job related reasons, along with education (reflecting the British tradition of students tending to study away from their homes) are the principal reasons for such migration. In this report the term migration is used to denote movement by individuals or households across regional boundaries.

In the ten years to mid-2003, inward domestic migration from the rest of the UK into London averaged 163,000 per annum. Over the same period average annual outward domestic migration was 226,000. Thus on average over these ten years, London lost a net 63,000 people to the rest of the UK each year. Part of this population loss due to domestic migration is offset by a net inflow of migrants into London from outside of the UK, especially in more recent years. In the five years to 2001, London received, on average, a net inflow of around 50,000 people each year from outside the UK. As this report is about London's relationship with the rest of the UK the focus in this chapter is on domestic migration between London and other parts of the UK. However international migration flows are considered in Chapter 4 which looks at London's role as a world city.

It is important to consider the composition of domestic migration flows into and out of London. This is analysed below. To place this analysis in context, previous research that has sought to answer questions such as why people migrate, the impacts migration has and what sort of individuals are most likely to migrate has been examined.

Explanations and impacts of migration

The theory that economists use to explain regional migration is conceptually quite simple. People are expected to move if they anticipate that the benefits of living at the new location outweigh the costs of moving. Consistent with this, previous research has found that inter-regional migrants have both higher individual earnings and higher household income compared to those who do not move[2]. Similarly, other research has stressed the role that regional mobility has in helping individuals advance their careers[3]. This research is discussed in more detail below in connection with the migration of skilled individuals in professional and managerial occupations.

More specifically, individuals are understood to search for work across a range of locations and will migrate if the best job offer is located in a region other than that in which they currently reside. Hence migration is believed to help in matching people to jobs, and thus increasing employment and reducing unemployment. It is also seen as helping to match people, especially those with more specialised skills, to jobs that best use their skills and so improving productivity.

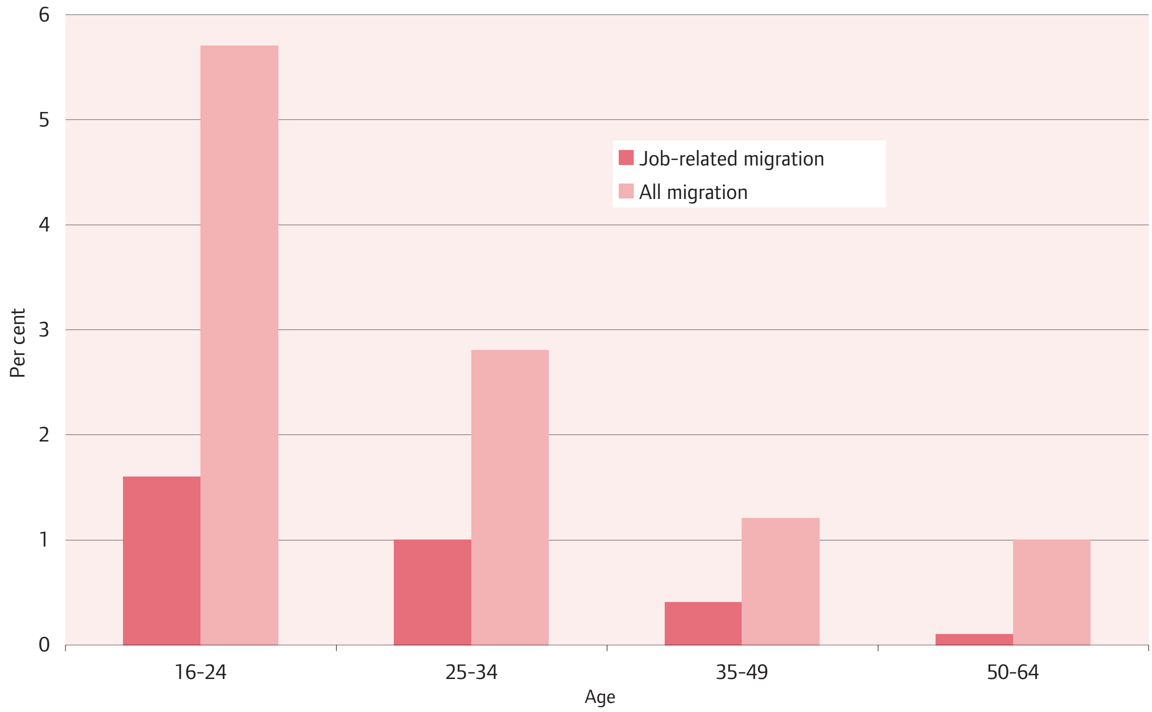
Composition of migrants

Previous research has found that an individual's propensity to migrate tends to vary with an individual's age, education, occupation and employment status. As Figure 2.1 shows, in the 1990s both job related and total migration declined sharply with increasing age.

This presumably reflects the smaller proportion of young people with partners or children. The costs associated with migration will be increased if it involves disrupting children's education. Couples face the difficulty of attempting to coordinate regional moves if both are trying to change jobs at the same time. One partner, usually the woman, may quit their current job if they are to accompany their partner in migrating to another region and engage in finding a new job in the new region. This clearly makes migration more difficult and costly for dual income couples, and research has shown that having a partner in work significantly reduces an individual's likelihood of migration[4].

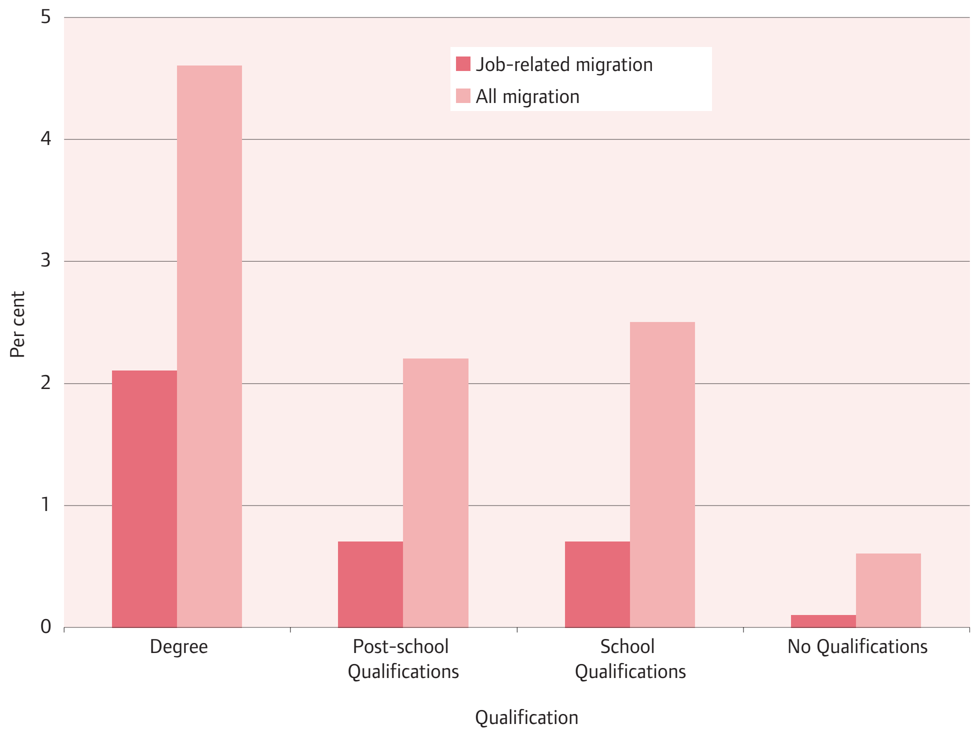
Figure 2.2 shows that both job related and total

Figure 2.1: Migration in Great Britain by age, 1991-2000



Source: Dixon, 2003, Migration within Britain for job reasons, Labour Market Trends, April

Figure 2.2: Migration in Great Britain by highest qualification, 1991-2000

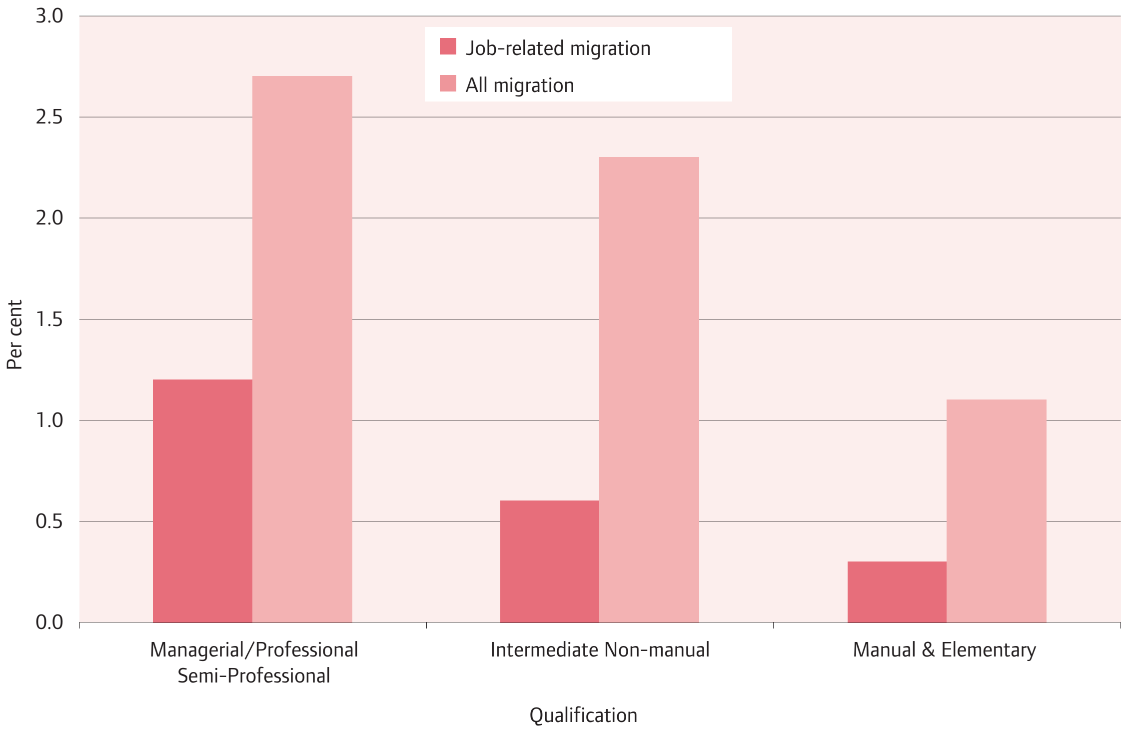


Source: Dixon, 2003, Migration within Britain for job reasons, Labour Market Trends, April migration increases with the level of qualifications held. People holding university degrees are especially likely to migrate. Similarly, Figure 2.3 shows that migration is higher in higher level occupations. Previous research has explained increases in migration amongst individuals with more qualifications or in higher occupations by suggesting that the specialised nature of many professional and managerial jobs means that they tend to be more limited in any one location. Therefore individuals in professional and managerial jobs are more likely to move to find the 'right job' and to advance their careers. Advancement within large organisations with offices, branches or operations in several locations also tends to raise the migration rates of well-qualified individuals in professional or managerial jobs. Research on employees moving within the same company has shown that much of the movement that occurs between workplaces in different regions involves the transfer of managerial or professional workers. Individuals seek to advance their careers by gaining experience in different functions in different locations. Recent research has suggested that this remains an important motivation for migration even though it has become more common for individuals to progress by switching employers rather than advancing internally within an organisation[5].

London and migration

As noted earlier, the net outflow of people from London to the UK exceeds the net inflow. Figure 2.4 shows this trend since 1984. The net outflow of migrants from London to the rest of the UK increased between 1984 and the late 1980s, peaking above 80,000 in 1988. Thereafter both migration into and out of London fell back somewhat and by the early 1990s the net outflow of people from

Figure 2.3 Migration in Great Britain by occupation, 1991-2000



Source: Dixon, 2003, Migration within Britain for job reasons, Labour Market Trends, April

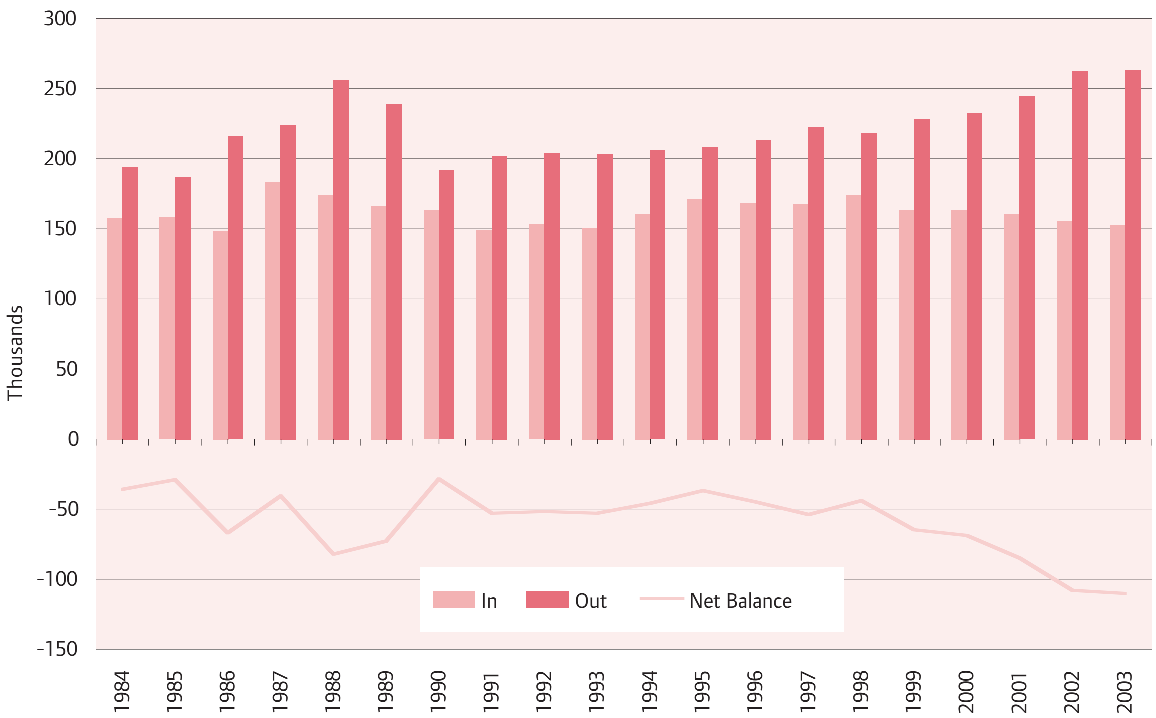
London had reached a level of around 50,000 people a year, a level it stayed around until the late 1990s. Since 1998 the net loss of population has increased to around 110,000 by 2003 as outward migration has risen whilst inward migration has tailed off back to the levels experienced in the early 1990s.

The pattern of increasing net outflows of migrants in the late 1980s and the late 1990s and early 2000s is broadly similar. These were both periods of boom in the London housing market so it may be that people took advantage of this by selling up in London and moving out to parts of the UK with lower house price levels. If so, it might suggest that in the next few years if the London housing market cools off, as many analysts anticipate, then, as in the early 1990s, the net outflow of people from London to the rest of the UK may shrink rather than increase from the current level.

Not surprisingly given the aggregate figures shown in Figure 2.4, London shows a net outflow of people to the rest of the UK for most age bands. The exception, as Figure 2.5 shows, is for people aged 15-24 with London experiencing a net inflow of around 9,000 people in 2002.

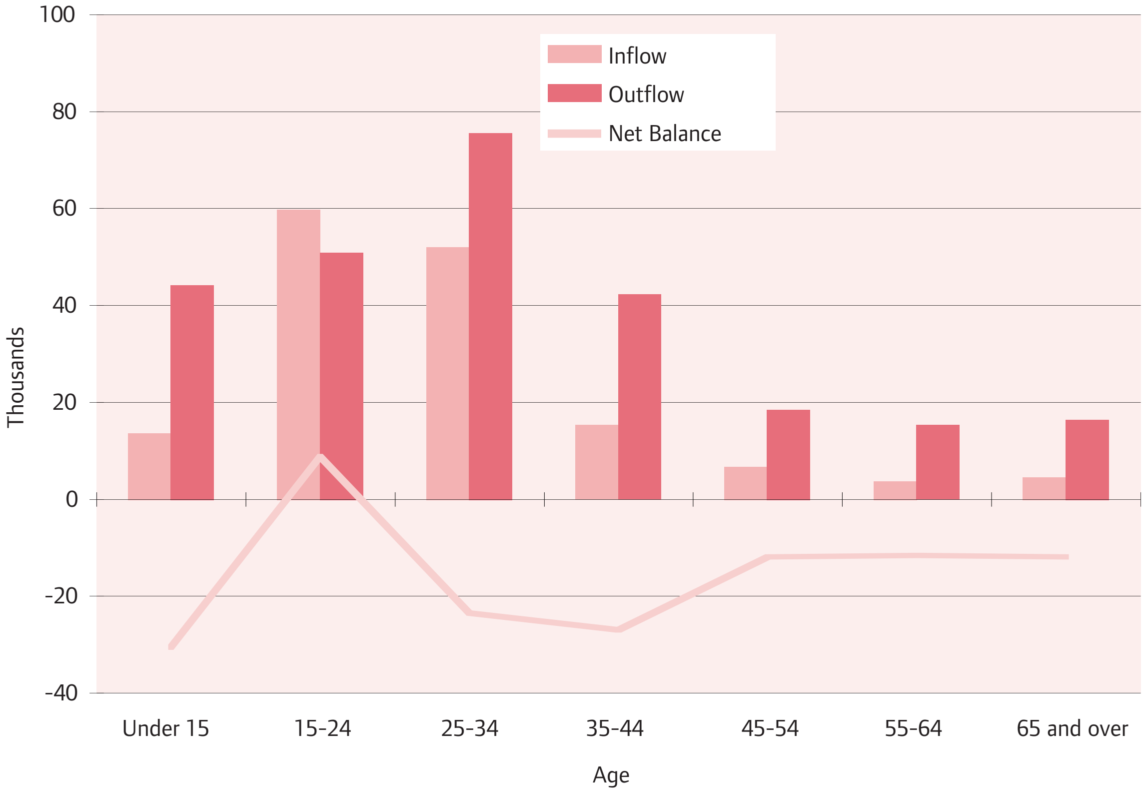
The *2001 Census* allows analysis of migration between London and the rest of the UK by individual years of age. This is shown in Figure 2.6 for men and women separately. Figure 2.6 reveals similar patterns for both genders. In 2001, London experienced a net outflow of children and young adults up to 20 years of age. There is then a net inflow of young people that peaks for both men and women at 23 years of age. This is presumably due to young people coming to London, after completing their higher education studies, to start their careers (discussed in more detail

Figure 2.4: Domestic migration into and out of London



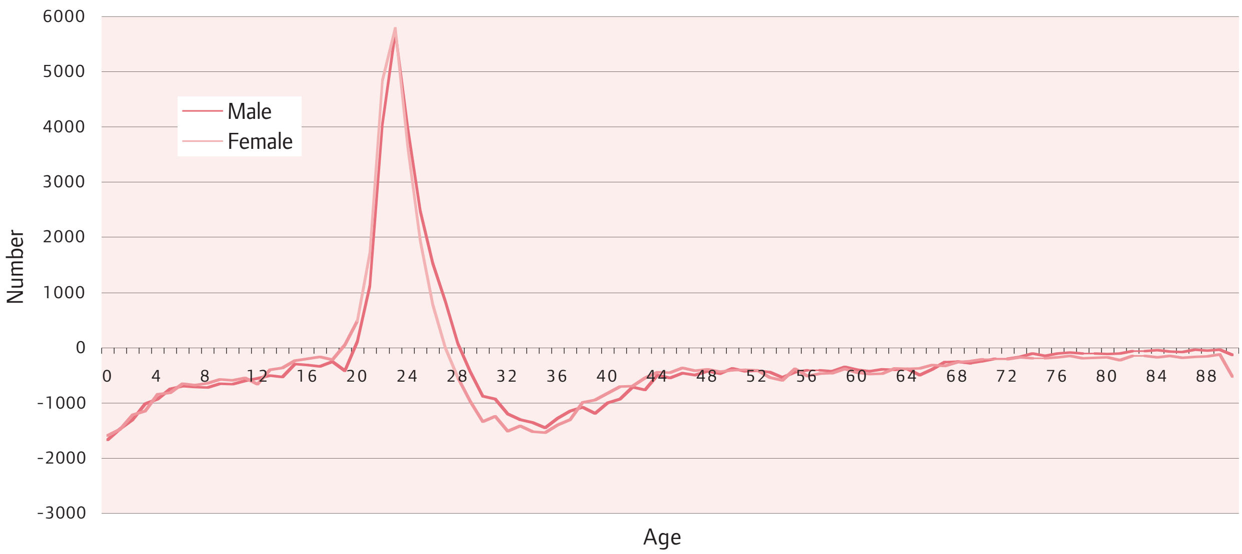
Source: Office of National Statistics

Figure 2.5: Migration to and from London by age group, 2002



Source: Office of National Statistics, 2004, Region in Figures

Figure 2.6: Net migration from the rest of the UK to London by age and gender, 2000/01



Source: 2001 Census

below). The net inflow into London of young people then declines and turns negative for people in their late 20s – at age 27 for women and 29 for men. The net outflow of people then peaks for people in their mid-30s. Presumably, these are often the parents of the children who were noted earlier as leaving London.

Data from the *Labour Force Survey* (LFS) allows an in depth investigation of the characteristics of migrants into and out of London. Table 2.1 below shows flows into and out of London by age in 2003 according to the LFS. The data supports the above analysis that London receives a net inflow of young people aged 16-24 and a net outflow of people aged 25 and over[6].

Figure 2.7, using LFS data, shows that in 2003 London saw a net outflow both of people with higher education or degree level qualifications and those in professional or managerial occupations. This finding contrasts with Dixon[7] who identified a small net inflow of people with post-school qualifications into London for the period 2000 to 2002. In addition, analysis of data from the *2001 Census* also shows that more people

Table 2.1: Migration into and out of London by working age, excluding full-time students, spring 2003

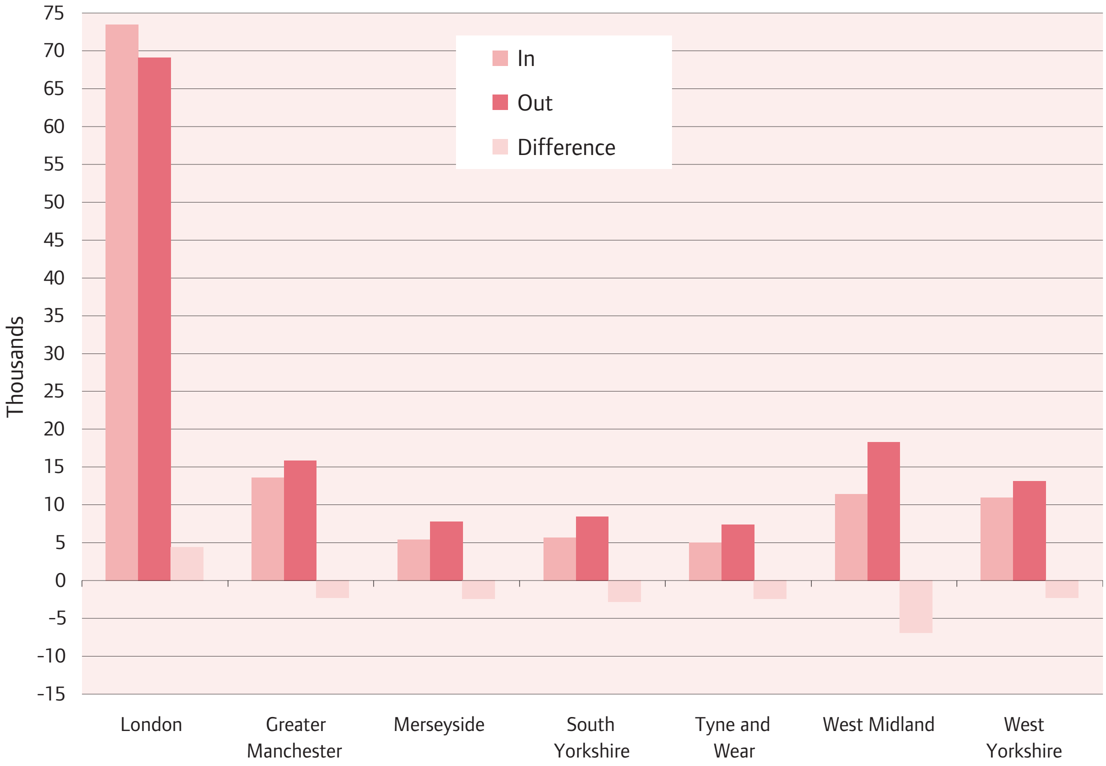
Age	In	Out	Net Balance
16-24	23,000	12,000	+11,000
25-29	15,000	23,000	-8,000
30 to retirement	25,000	70,000	-44,000

Source: Labour Force Survey

Figure 2.7: Migration to and from London by occupation and qualifications, excluding full-time students, spring 2003

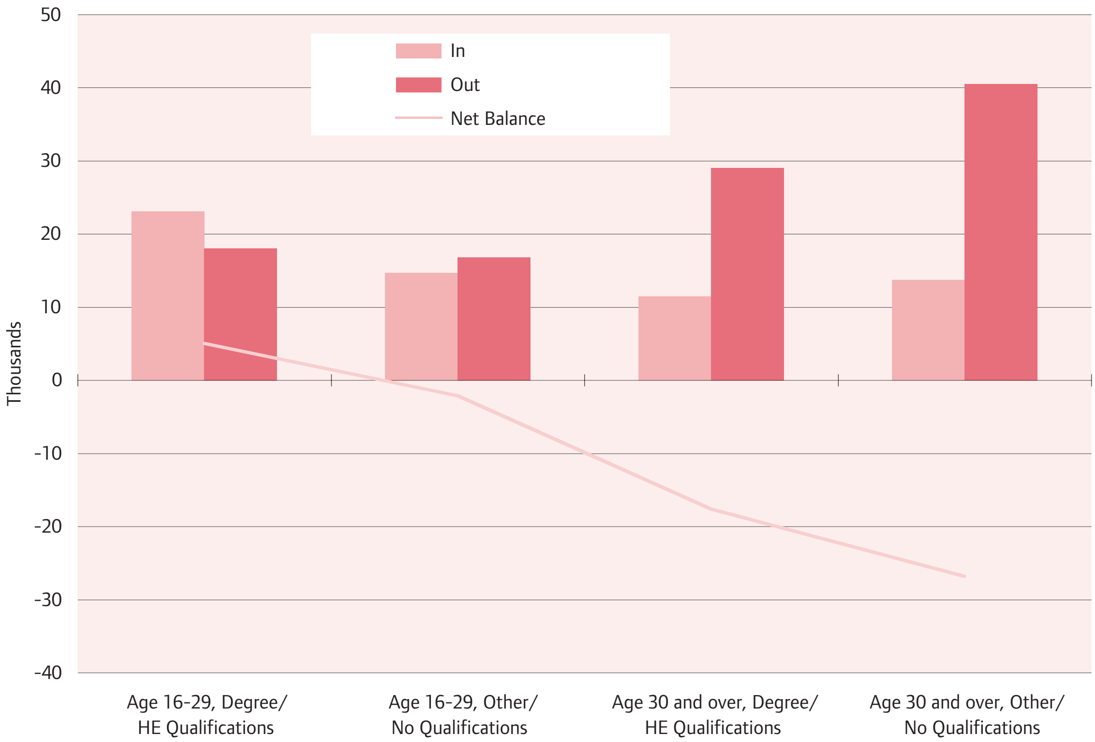
Sourc:e Labour Force Survey

Figure 2.8: Migration by individuals in managerial and professional occupations in 2000/01



Source: Calculations by Professor Tony Champion, University of Newcastle, using data from the 2001 Census

Figure 2.9: Migration to and from London by age and qualifications, excluding full-time students, spring 2003



Source: Labour Force Survey

in managerial and professional occupations migrated to London from the rest of the UK than left London for the rest of the UK (see Figure 2.8). This contrasts with the situation for other large urban areas (conurbations). It should be noted that the amount by which the inflows to London outweigh the outflows from London is less than a quarter of the total difference between the outflows and the inflows for the other six major English conurbations. Hence, most of this difference involves migration to and from destinations outside of England's large conurbations.

Given the above discussion about migration into and out of London by age and occupation or education and the common perception that London acts as a magnet drawing in talented young people with skills from the rest of the UK, how these two factors interact with regard to migration flows into and out of London should also be considered. Figure 2.9 shows that consistent with popular belief, London receives a net inflow of young people with high level qualifications. This LFS analysis is supported by other data.

Higher Education Statistics Agency (HESA) data reveals that in 2002, 18 per cent of UK undergraduates and 19 per cent of UK post-graduates took their first job in London, which is above London's 15 per cent overall employment share[8]. Furthermore, London is an important training ground for the legal profession. Law Society data, reported by the Corporation of London (CoL)[9], indicated that around half of all legal trainees in England and Wales undertook their traineeships in London.

However, there is also a net outflow from London of people aged 30 and over with high level qualifications. The data therefore is consistent with the notion that London is an 'escalator' region for skilled young people. Highly skilled young people come to London for career advancement before stepping off the escalator by migrating to other parts of the UK, taking with them their skills and acquired knowledge.

Table 2.2: Migration to and from London by origin and destination
Average 1995 to 2003

Region	From	To	Net Balance
North East	4,800	4,000	800
North West	13,200	11,800	1,500
Yorkshire and Humberside	10,300	9,100	1,200
East Midlands	10,200	11,900	-1,600
West Midlands	11,500	10,800	600
East	29,600	58,700	-29,000
South East	53,800	88,300	-34,500
South West	16,000	22,200	-6,200
Wales	5,300	5,600	-300
Scotland	7,500	7,100	400
Northern Ireland	1,500	2,000	-500

Source: Office of National Statistics. Note: All figures have been rounded to the nearest 100

Fielding (1992) developed the escalator region concept by showing, for example, that migrants to the South East between 1971 and 1981 were around two-and-a-half times as likely to have gained entry to professional, managerial or technical jobs than the residents of England and Wales as a whole[10].

The concern that London is sucking in people to the detriment of other parts of the UK is often claimed to be particularly acute for the Midlands, the North of England and the non-English parts of the UK. Hence the origin and destination of migrants into and out of London should be considered. Table 2.2 shows average annual inflows and outflows of population between London and other UK regions for the period mid-1995 to mid-2003. During these years, London tended to receive, on average, small net inflows of migrants from outside Southern England (i.e. all regions except the South East, South West and East of England) totalling 2,100 migrants each year. However, this was more than offset by the much larger average net outflow of 69,700 people from London to the rest of Southern England. The average annual net flow of 2,100 people into London from outside Southern England represents only one two hundredth of one per cent of the population of these regions and countries. Hence the magnitude of these flows is hardly consistent with the idea that London is stripping the UK outside Southern England of its talented individuals.

Table 2.2 also indicates that most migration to and from London is between London and the neighbouring regions of the East and the South East. Such 'local' migration accounts for just over a half of all inward migration into London and nearly two-thirds of outward migration from London. This pattern of most migration going to a region's neighbours is common to most of the UK's regions and countries. Northern Ireland does not directly neighbour any other UK regions or countries but of the other ten UK regions or countries outside London an analysis of migration in 2002 and 2003 indicates that seven regions both received and exported more than half its migrants from or to neighbouring regions. The exceptions were the North East, Yorkshire and Humberside, and Scotland.

Conclusions on migration

Inter-regional migration in the UK declines with individual age and increases with educational or occupational level. Previous research on migration in Britain has suggested that geographical mobility helps promote an individual's upward social mobility and career. Analysis of migration flows between London and the rest of the UK is consistent with this. London attracts well qualified young people at the start of their career. However migration between London and the rest of the UK is not consistent with the notion that there is a one-way brain drain from the rest of the UK into London as individuals with high level qualifications or professional or managerial occupations migrate out from London to the rest of the UK at a later stage in their careers. Finally, the magnitude of flows between London and the UK outside Southern England are very small and do not support the argument that London is siphoning off talent from these parts of the UK to their detriment. Rather the above analysis reflects one aspect of the mutual interdependency between London and the rest of the UK. London gains from the net inflow of talented young people and the rest of the UK gains when people migrate out from London later in their careers taking their skills and experience with them.

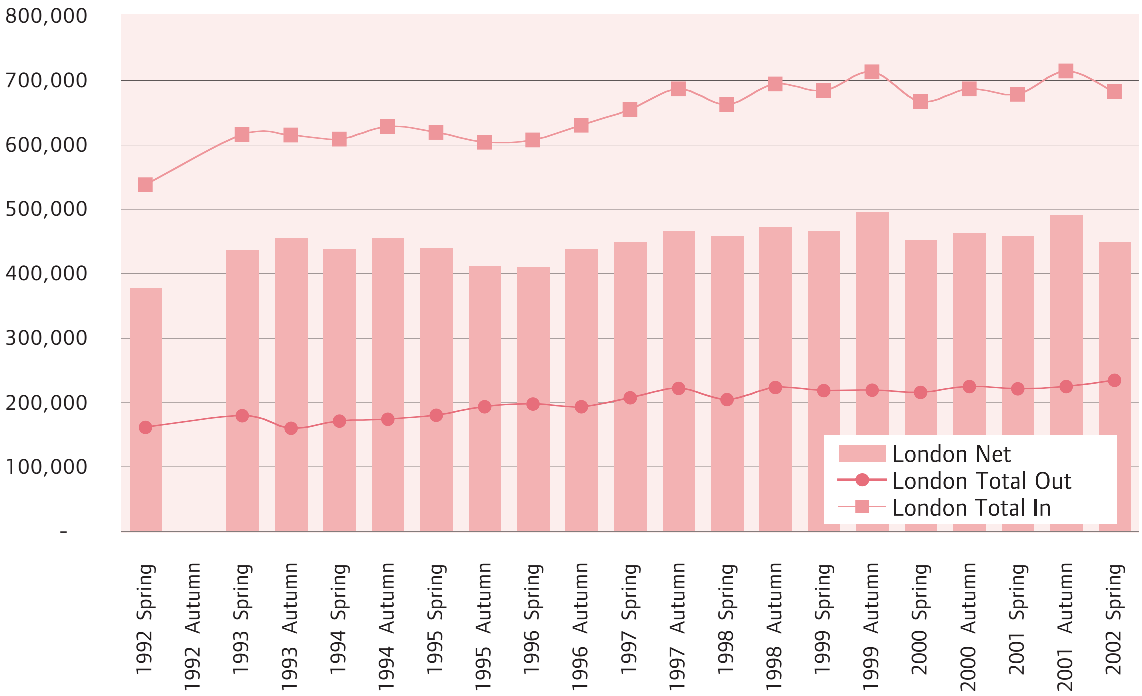
Commuting

Given the concentration of

employment in London's central business district in the City of London, Westminster and parts of other central London boroughs, large numbers of Londoners spend significant amounts of time commuting to work.
In 1997/98 Londoners on average spent around 77 minutes each week day commuting into work, up from 63 minutes each day in 1991/92[11]. However as the focus of this report is on London's relationship with the rest of the UK the terms commuting and commuters here refer just to those individuals who reside outside the boundaries of Greater London and travel into London in order to work (in commuters), and those Londoners who travel to work outside London (out commuters).

Commuting is perhaps the most obvious interaction between London and the other parts of the UK. The vast majority of commuters into London come from the neighbouring regions of the East or the South East. According to the *2001 Census*, the South East alone accounts for 52 per cent of commuters into London, the East of England provides another 39 per cent so that the rest of the UK outside the Greater South East accounts for just nine per cent of commuters into London. Commuting helps to integrate London's housing and labour markets with those in the surrounding regions. Commuting links between London and surrounding areas plus the pattern of housing and job locations across the Greater South East mean that there are high degrees of overlap between local labour and housing sub-markets. Consequently, the impact of shifts in the supply of or the demand for labour or housing originating in London will ripple across much of the Greater South East. Equally, such shifts originating outside of London will impact on the London housing and labour markets[12]. The

Figure 2.10: In, out and net commuting to London

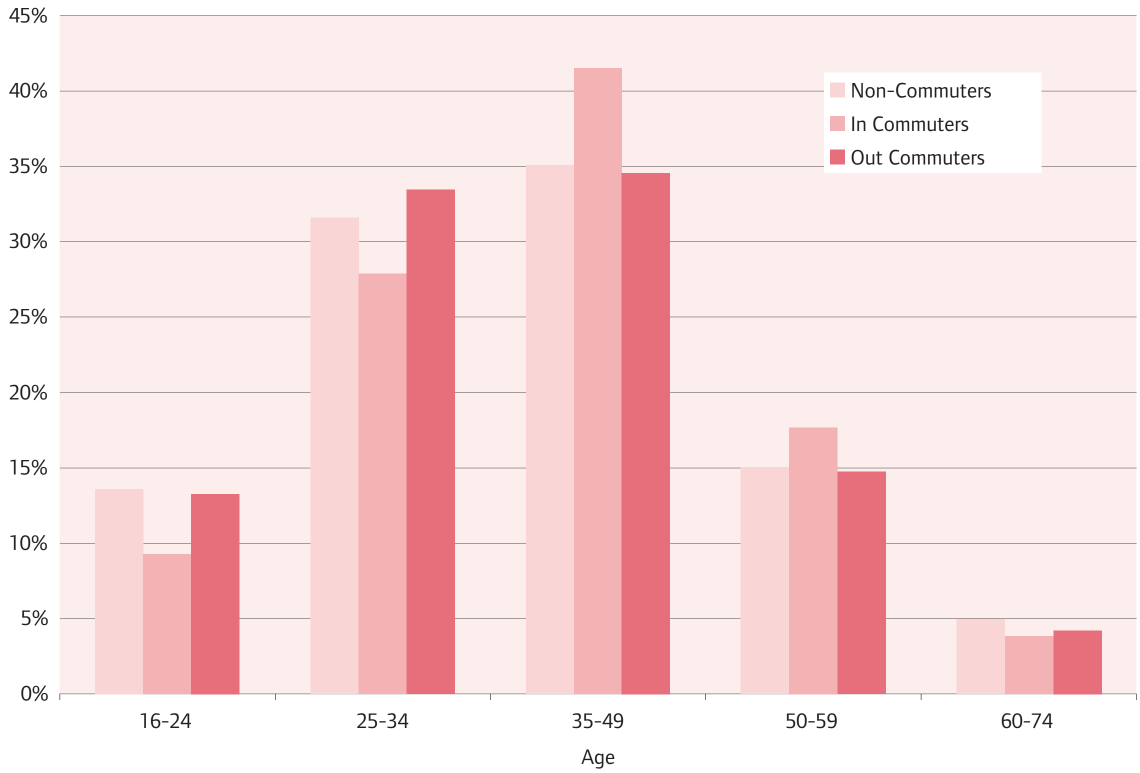


Source: Labour Force Survey and GLA Economics' calculations strength of these ripple effects will depend on the magnitude and nature of the commuting links between London and its surrounding regions.

Recent trends in commuting

According to the *2001 Census*, around 723,000 people commuted into London for work in 2001. In commuting to London since the previous *1991 Census* has increased seven per cent, up by 50,000 from 673,000. Out commuting by Londoners also increased between 1991 and 2001 from 150,000 to 236,000 – an increase of 86,000 or nearly 60 per cent. Consequently census data suggests an increase in the commuting interdependency between London and the rest of the UK as both increased numbers of non-Londoners are directly dependent on the London economy for work and increased numbers of Londoners are dependent on the economy outside London for work. At the same time, net commuting into London declined between 1991 and 2001 from 523,000 to 487,000[13]. Previous analysis by GLA Economics using data from the LFS, which has been updated to autumn 2003, showed a similar pattern over the 1990s[14] with both in commuting and out commuting increasing over the 1990s. However in contrast with the census, LFS data suggests that net commuting was broadly stable between 1993 and 2002, although it appears to have declined more recently between 2002 and 2003. Figure 2.10 shows in, out and net commuting from this study and its update. Perhaps most notably it shows that both in and net commuting to London were stable during the years 1997 to 2000, a period when London experienced very rapid output and employment growth. As commuting into London did not increase during this period – especially when considered alongside the trends for domestic migration into London which show an

Figure 2.11: Age profile of commuters and non-commuters



Source: Census 2001

increase in the net outflow of migrants from London to the rest of the UK during this period – London did not achieve its rapid growth during this period at the expense of the rest of the UK by sucking in increasing amounts of labour from other regions.

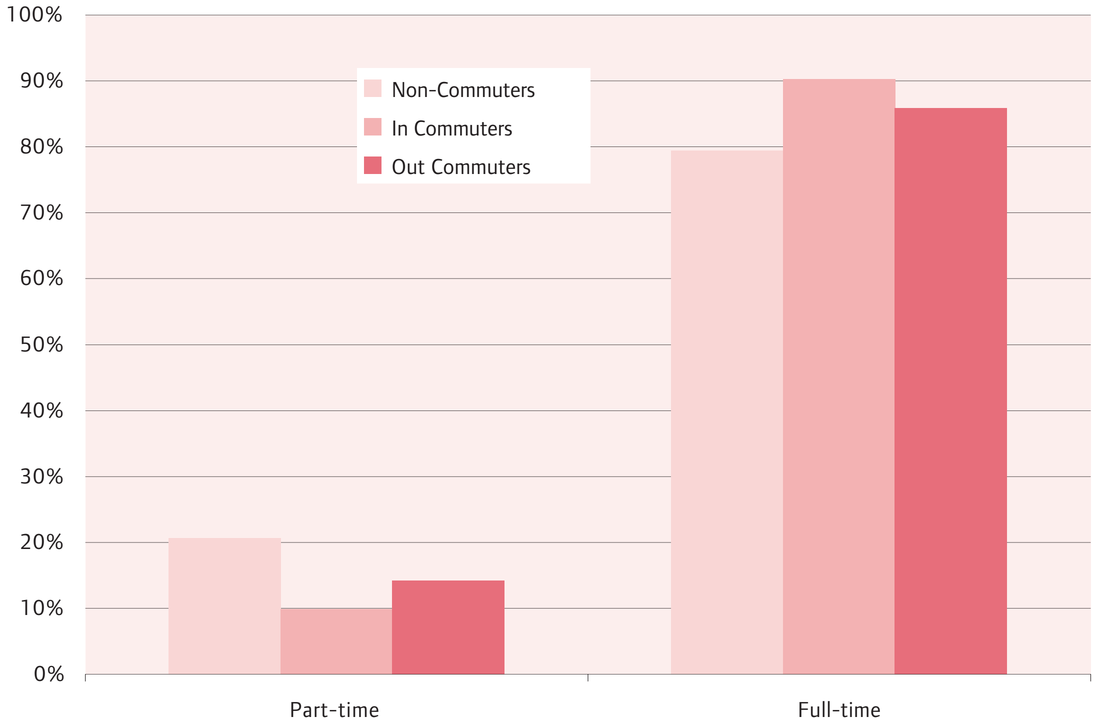
Composition of in and out commuting

Looking at the composition of in and out commuters and non-commuters (Londoners who also work in London) helps to understand the links between London and the surrounding regions. Figure 2.11 shows the age profile of these three groups. The age profiles of non-commuters and out commuters are very similar. In commuters tend to be older than these two groups, consistent with the earlier findings that people tend to migrate out of London after spending the initial years of their career living in the capital and that much migration out of (and indeed into) London is to the East and South East regions.

As Figure 2.12 shows, commuters, particularly in commuters, are less likely to work part-time than non-commuters. Only around one-in-ten in commuters work part-time compared to a fifth of non-commuters. Commuting involves financial and time costs (time could otherwise be spent working, enjoying leisure or in unpaid work). Working part-time therefore, is less likely to be worthwhile for individuals commuting into or out of London than it is for people who both live and work in London.

Figure 2.13 shows the occupational profile of commuters and non-commuters. In commuters and to a lesser extent out commuters are more likely to be in higher paid, higher status occupations than non-commuters. Nearly two-thirds of in commuters work in managerial, professional or technical occupations compared to just a half of

Figure 2.12: Part-time and full-time working by commuters and non-commuters



Source: 2001 Census
Note: Part-time is defined as working one to 30 hours a week and full-time is defined as 31 hours and over

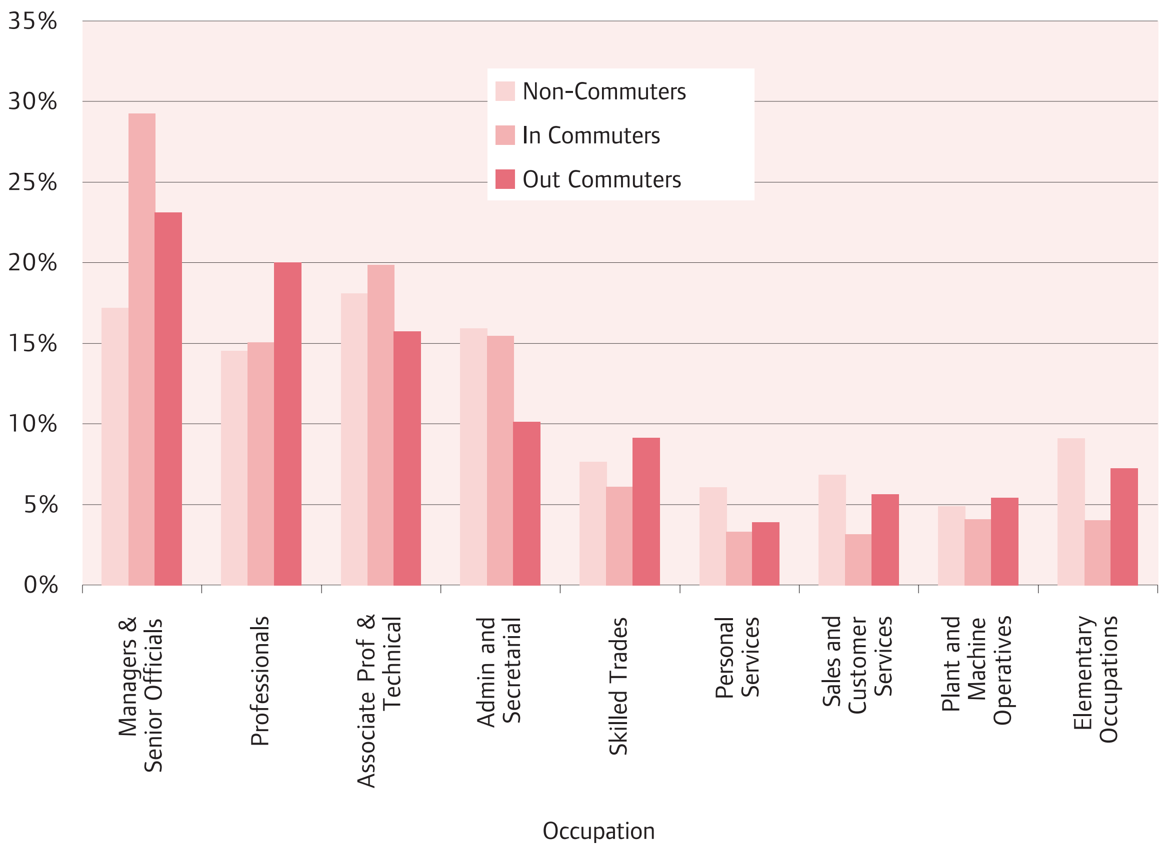
non-commuters. In commuters are also less likely to be employed in relatively lower paid occupations such as sales and customer services than non-commuters. Out commuters are also more likely to be in managerial, professional or technical occupations than non-commuters. In addition, people in skilled trades form a higher proportion of out commuters than either non-commuters or in commuters. This reflects the fact that manufacturing and construction, sectors where skilled manual workers are concentrated, have a greater presence in the economies of the areas surrounding London than they do in the capital itself[15]. This is seen in Figure 2.14 which shows a much higher proportion of out commuters employed in construction and mining, manufacturing and utilities than is the case for either in commuters or non-commuters.

Figure 2.14 also indicates that the proportion of in commuters to London employed in financial services is nearly twice as high as for non-commuters living and working in London. In fact, in commuters account for nearly a third of the workforce in London's financial sector. In commuters are also much more likely than non-commuters to be working in the transport and communications industry.

Contribution of commuters to the London economy

The *2001 Census* suggests that in 2001 in commuters to London accounted for 19 per cent of all workers employed in London, down very slightly from 20 per cent in 1991. Similarly, slightly lower figures emerged from the LFS which indicate that in commuters took 16 percent of all jobs in 1993 falling a little to 15 per cent in 2003.

Figure 2.13: Occupation profile of commuters and non-commuters

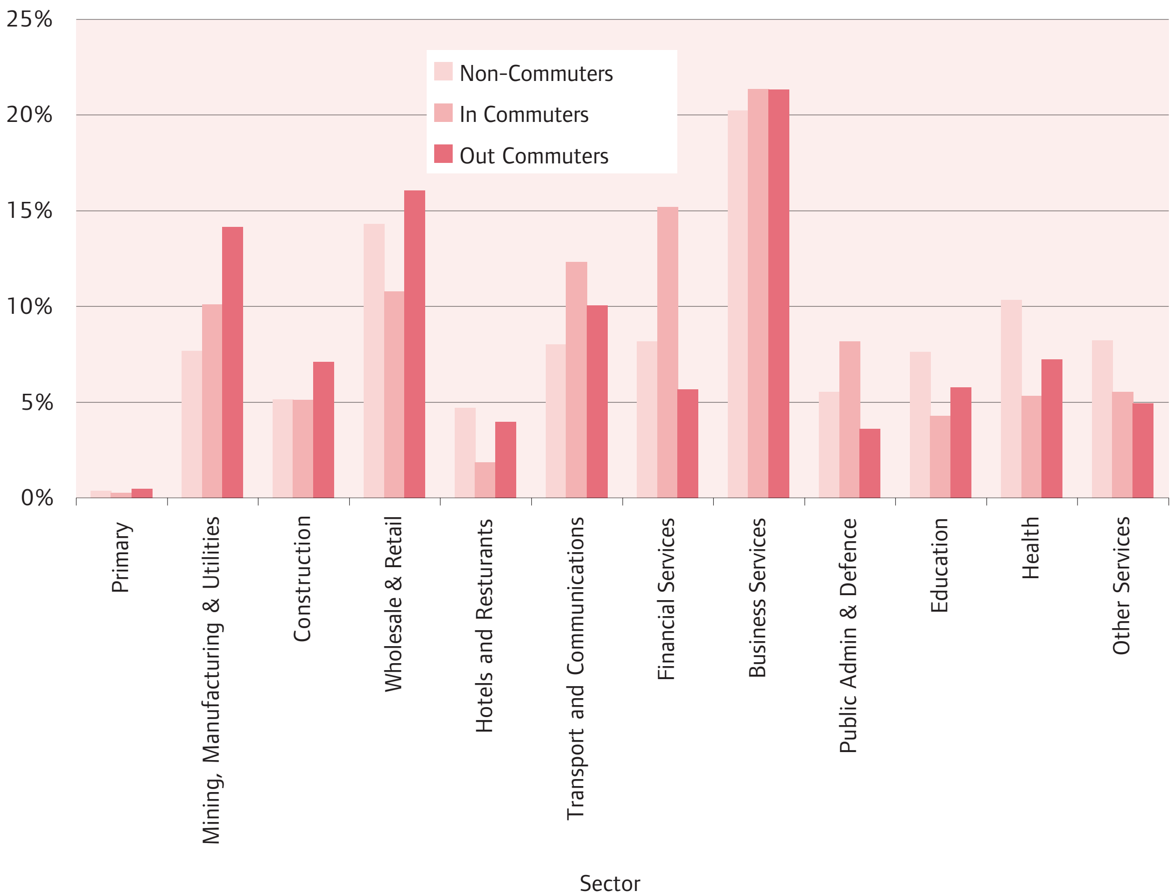


Source: 2001 Census

Regional output figures are calculated on two bases: workplace and residence. The former allocates output according to where workers work and the latter according to where they live. Hence the difference between the figures on the two bases for London gives an estimate of the output generated by net commuters into London. On this basis net commuting into London in 2003 accounted for £19.1 billion of output or 11 per cent of the London economy. Since according to the *2001 Census* in commuting was nearly 50 per cent higher than net commuting, this suggests that in commuters in 2003 contributed around £28 billion to the London economy.

Alternatively it could be assumed that commuters' contribution to the London economy is the same as their share of employment located in London. On this basis (and using the census estimates rather than those from the LFS as the census is more likely to be accurate than a survey such as the LFS) a similar estimate of the economic contribution of commuters for 2003 is identified. In commuters are estimated to produce around £33 billion and net commuting is estimated to account for around £22 billion. Hence taking these estimates together it is not unreasonable to conclude that in commuters to London contributed between £28 and £33 billion to the London economy in 2003. This may even be an underestimate. Firstly because in commuters are more likely to work in professional and managerial occupations and in the

Figure 2.14: Sectoral composition of commutes and non-commuters



Source: 2001 Census

financial service sector, where London is a world leader, than the average London worker. Hence in commuters may be more productive than the average London worker. If so, then their contribution to the London economy will be higher than their share of employment and this would boost their estimated contribution to London's output above £33 billion.

Secondly, productivity in London is boosted by the concentrations of related business activities, most notably financial and business services. These agglomeration effects are discussed in more detail in Chapter 3. The Office for National Statistics (ONS) measures regional output by adding up the incomes that result from production (e.g. the wages accruing to workers and profits to firms). Initially these incomes are allocated to the region where workers live and then adjusted to allow for commuters who live in one region but work in another. The way this adjustment is done is unlikely to take complete account of the agglomeration benefits to productivity that accrue from working in London.

Impact of commuting on South East and East of England

The London economy provides significant employment opportunities for workers resident in the South East and East of England regions. In commuters from the South East represent around ten per cent of the region's employed residents. The equivalent figure for the East of England is 11 per cent. Research by Oxford Economic Forecasting (OEF)[16] suggests that spending by in commuters in the regions they live in amounts to £11.1 billion, supporting an estimated 140,000 jobs, some of which will be located outside of the Greater South East as some goods and services purchased will be imported from other parts of the UK. In addition, spending by out commuters from London is estimated to amount to an additional £0.7 billion. Using the above estimates for the contribution of in commuting and net commuting to the London economy in 2003, an estimate can be made of the contribution of out commuters to the economies of the South East and East of England. This is estimated to be between £9-11 billion in 2003 or four to five per cent of the total output produced in the South East and East of England regions.

Conclusions on commuting

Commuting integrates London's housing and labour markets with those in the wider Greater South East. As both in and out commuting has increased over the 1990s, this degree of integration strengthened economic links between London and the surrounding regions. In commuters, relative to non-commuters, are more likely to work full-time, be in professional or managerial jobs, and be employed in the financial services sector. Hence London provides high quality employment opportunities to these in commuters benefiting principally the South East and East of England regions. Consistent with this, past research has identified a positive relationship between the proportion of in commuters employed in a sector and the average productivity of workers in that sector, so higher commuting is associated with higher productivity[17]. Overall in commuters account for just under a fifth of employment located in London and in 2003 for at least £28-33 billion of London's output. In addition, around one-in-ten of workers resident in both the South East and East of England regions rely on the London economy for employment.

Previous research has suggested that commuting flows to and from London lead to consumer spending of almost £12 billion in the

South East and East of England to the benefit of these regions and those beyond which export goods and services into these two regions. However it should be noted that this only measures the magnitude of the short run effects of spending by commuters into London in their regions of residence. In the medium to longer term, the economies of the Greater South East outside London would adjust to any decrease in spending due to a decline in commuting by finding markets for their products elsewhere. This would compensate for at least some of the output lost through reduced commuting into London. In addition, former commuters would over time find other jobs and so increase their spending. In short, the ultimate long run impact of spending by commuters on the regions of the South East and the East of England would be less than the £12 billion short run effects.

Chapter 3:
London's trade and its economic specialisation

Key points:

- London's economy is particularly orientated towards finance and related business services.
- London has significant concentrations of the creative industries and leisure activities.
- In line with this specialisation, London is a net exporter of business and financial services to the rest of the UK.
- London accounts for at least a third of the UK's service exports but less than five per cent of the UK's goods exports.

With a long history as a centre of trade, London continues to have important trading relationships with the other UK regions and the world. According to the *2003 London Business Survey*, 32 percent of sales made by London businesses are to customers in the rest of the UK and 13 per cent are to customers outside the UK. Purchases by London businesses from outside London are also substantial. Purchases from the rest of the UK account for 34 per cent of all purchases and around five per cent of purchases by London businesses come from outside the UK.

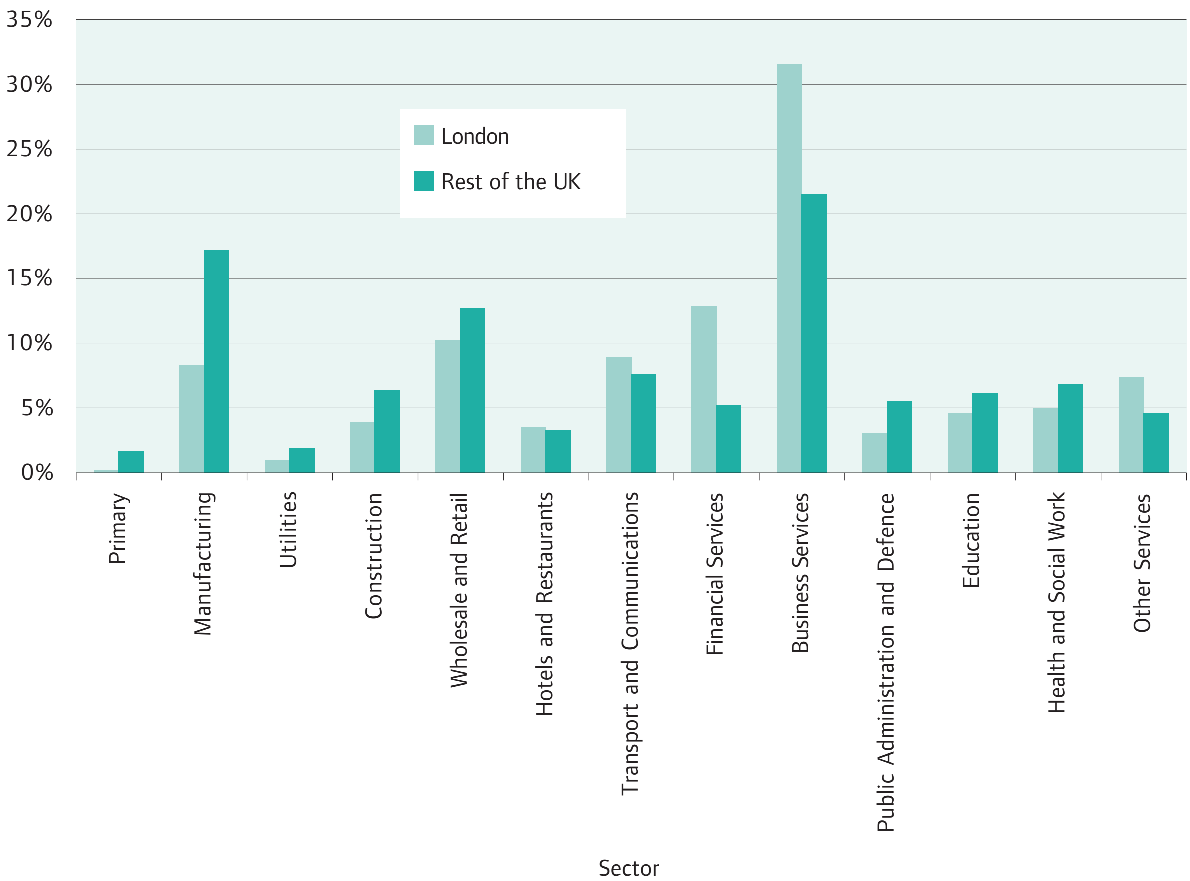
Trade between nations, regions and even individuals is driven by specialisation. Most individuals do not find it advantageous to grow their own food or make their own furniture but rather specialise in occupations that make the best use of their particular talents and use their earnings from these occupations to purchase food, furniture and other needs and desires. In the same way, regions and nations specialise in certain economic activities and engage in trade to their mutual advantage. Hence inter-regional trade between London and other parts of the UK is driven by the fact that the economies of London and those in other parts of the UK are different and concentrate on different activities. Figure 3.1 shows the different broad industrial structures of the economies in London and the rest of the UK.

Figure 3.1 indicates that London's economic activity is much more focused on financial and business services and has a much smaller manufacturing sector.

In addition, the nature of manufacturing in London is different in character. In particular, a third of manufacturing jobs in London are in publishing and printing compared to one-in-ten outside London[18]. Also other research has found that three-quarters of London jobs in manufacturing were in establishments citing a function other than manufacturing production as their main activity – typically sales, administration, or service provision[19]. Despite the presence of the Whitehall departments and parliament in Westminster, and contrary to the perception of many, the public sector accounts for a smaller share of economic activity in London than it does elsewhere.

These broad sectoral comparisons may hide particular London specialisations within broader industrial categories. Hence it is important to analyse the structure of the London economy in greater detail. Output data at a regional level is not available in sufficient detail to do this so employment data is used. Our analysis takes data for employees in employment from the 2002 Annual Business Inquiry broken down to a detailed set of sub-sectors (the three digit Standard Industrial Classification [SIC] code). An Index of Specialisation is

Figure 3.1: Sectoral structure of London and the rest of the UK, 2002
Shares of total output



Source: Office of National Statistics

Table 3.1: London's specialist strengths

Specialisation	London Employment	Index of Specialisation
Professional & Business Services	**693098**	
Legal, accounting, research & consultancy	224805	2.41
Labour recruitment etc	152231	1.55
Miscellaneous business activities nec	99511	1.98
Industrial cleaning	84776	1.39
Architectural/engineering activities etc	59811	1.37
Investigation and security activities	38835	1.89
Advertising	33129	3.57
Financial Services	**291143**	
Monetary intermediation	149163	2.26
Activities auxillary to financial intermediation	65654	7.52
Other financial intermediation	38943	3.05
Activities auxillary to insurance/pension funding	37383	2.11
Wholesale, Retail & Catering	**249852**	
Restaurants	128406	1.62
Wholesale of household goods	58993	1.54
Canteens and catering	57045	1.48
Retail: second-hand goods in stores	5408	1.71
ICT	**143332**	
Software consultancy and supply	61095	1.53
Telecommunications	52953	1.47
Other computer related activities	25608	1.82
Data base activities	3676	2.97
Transport	**126972**	
Scheduled air transport	39569	6.52
Activities of travel agencies etc nec	32570	1.94
Other supporting transport activities	23060	1.81
Activities of other transport agencies	19037	1.92
Transport via railways	12736	1.95
Media and Publishing	**126885**	
Publishing	58095	3.43
Radio and television activities	39970	7.40
Motion picture and video activities	17820	4.31
News agency activities	8033	17.10
Reproduction of recorded media	2967	3.29
Property	**91972**	
Real estate activities	38545	1.80
Letting of own property	32156	1.63
Real estate activities with own property	21271	2.00
Entertainment & Recreation	**80440**	
Arts and other entertainment activities	36908	3.24
Gambling & other recreational activities	25756	1.32
Library, archives, museums etc	17776	1.45
Representative Organisations	**17277**	
Activities of business & professional organisations	12511	4.26
Activities of trade unions	4766	2.53
Manufacturing	**2003**	
Manufacture of jewellery etc	2003	1.49

Source: Annual Business Inquiry. Note: nec = not elsewhere classified calculated as each sub-sectors' share of employees in London divided by the same share for the rest of Great Britain outside London. If London's industrial structure was the same as the rest of Great Britain, meaning that London had no areas of economic activity in which it was any more or less specialised than Great Britain as a whole, then this Index of Specialisation would equal one for all sectors. If London has a greater concentration of employment than the rest of Great Britain in a particular sub-sector, then the Index of Specialisation exceeds one. For those sub-sectors where London is under represented the Index of Specialisation is below one.

London is assessed as having a particular speciality in 38 sub-sectors out of the total of 223 three digit SICs. These are sectors where the Index of Specialisation exceeds 1.3 and where there are at least 2,000 London located employees to ensure that they are economic activity areas of some consequence. These sub-sectors are shown in Table 3.1 grouped into ten broad categories. In total these 38 sub-sectors account for 1.8 million employees out of London's 3.9 million employees or just under a half of all London employees. The sub-sector where London has the greatest degree of specialisation is *news agency activities* where London accounts for three quarters of all employees in Great Britain. The largest specialist London sub-sector is legal, accounting, research and consultancy which in 2002 employed 225,000 people. Overall professional and business services are the largest broad area of specialist activity in London, accounting for nearly 700,000 London employees. Unsurprisingly financial services is the second most important area of specialist activity in London, accounting for nearly 300,000 London employees.

Table 3.1 also reveals London to be a centre of the creative industries (in terms of the groupings set out in Table 3.1, creative industries include media and publishing, and parts of professional and business services, ICT, and entertainment and recreation[20]). In total, London's creative specialist strengths amount to 318,000 jobs – comparable in size to London's specialist strengths in the area of financial services. GLA Economics has previously calculated that London accounts for around 40 per cent of creative employment in the UK[21] – more than double its share of overall employment.

In addition, London has a substantial specialisation in the leisure sector. London's areas of leisure specialisation overlap partly with the creative industries and total 227,000. Previous research by GLA Economics[22] indicated that London accounts for a quarter of Britain's leisure economy and has particular areas of strength in entertainment (accounting for close to 45 per cent of the national total), gambling (nearly 40 per cent), dining (30 per cent) and visitor attractions (25 per cent). Altogether accounting for the overlap between the two categories, the creative and leisure industries' specialisations employ 490,000 people in London.

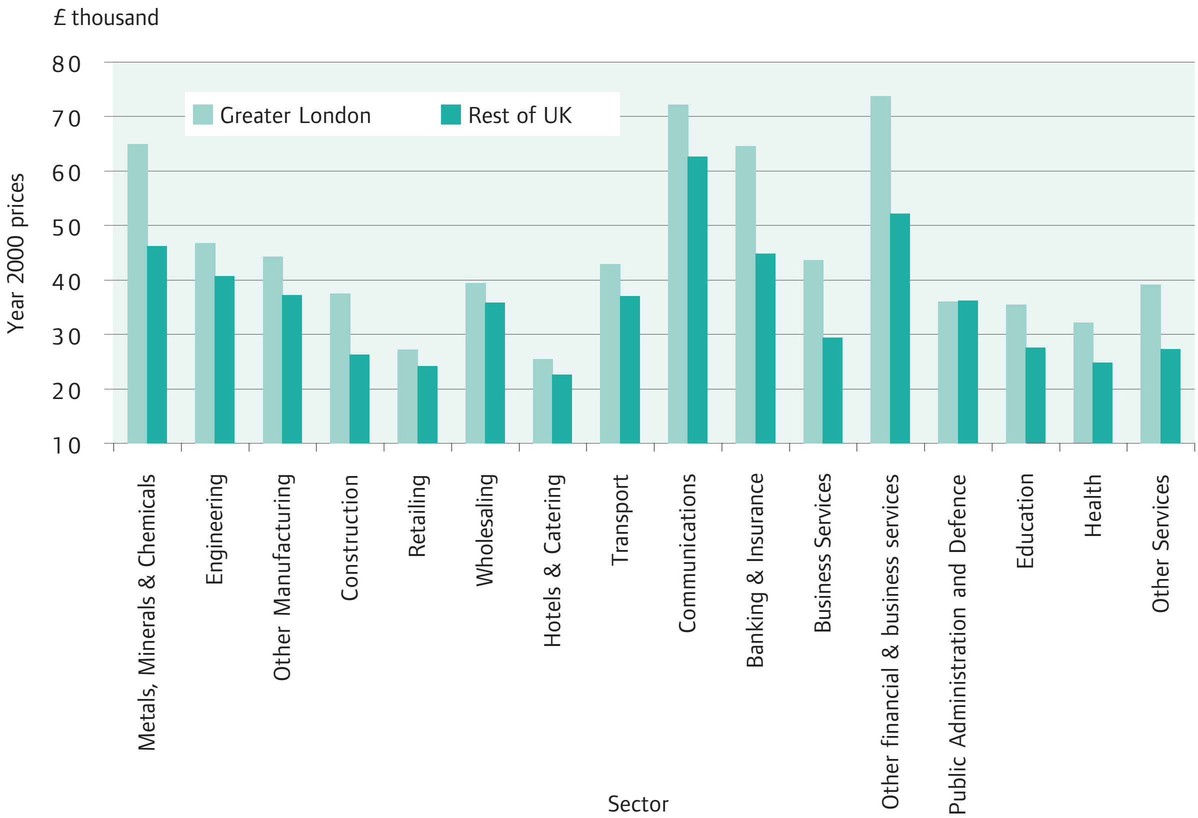
Other research has identified very similar ranges of activity to that given in Table 3.1 as London's particular specialisations. All such studies[23] have emphasised that London's areas of specialist strength are almost entirely in the service sector and require workers with high levels of human capital. In the words of the most recent comprehensive study of London's economy and society, London has a competitive advantage in 'an extraordinary diverse range of specialist activities'[24].

The concentration and specialisation of London in these specialist activities is beneficial not just to London but also to the UK as a whole. The bulk of London's specialist strengths identified in Table 3.1 produce intermediate products sold to other businesses rather than the final consumer. Hence London's products and services overwhelmingly feed into the production activities of other businesses. Thus the performance of London's areas of specialisation directly impact on the corporate performance of UK businesses.

Many of London's specialisations are co-located in the same parts of London, usually central London. This is particularly true for the financial and business services. The City of London is universally recognised as a centre for the financial services industry, but in addition, 36 per cent of employment in the City of London is in related business services activities such as accountancy and the legal profession. Additionally some financial services are located outside, but in boroughs adjacent to the City of London, and business services are located in the same boroughs most notably in parts of Westminster and Camden. Co-location of related activities is also evident in the creative industries, for example, in West London which has a concentration of the media and music industries.

The co-location of companies in the same sectors or other related sectors allows companies to take advantage of what economists have termed agglomeration economies. These lead to increasing returns to scale in the production of goods and services so that they can be produced at lower unit costs

Figure 3.2: Productivity by sector in 2003 (workplace based)



Source: Experian Business Strategies

or increasing quality with higher levels of output. The sources of agglomeration economies generally include:

- The availability of specialised input services (e.g. in London corporate legal services supporting the financial services industry).
- The formation of highly specialised labour forces as a concentration of many firms demanding similar skills makes high degrees of occupational specialisation a viable and rewarding career option (e.g. fund managers in City of London firms).
- Spillovers of knowledge between firms often via face to face contacts (e.g. seminars, or probably more important lunch or drinks in a local restaurant or pub).
- Firms within a particular industry will be more productive where they have to face competition from other businesses located close by.

The existence of agglomeration economies is one reason behind London's generally superior productivity performance relative to other parts of the UK (see Figure 3.2). Most notably productivity in the financial and business services sector as a whole was more than 40 per cent higher in London than in the rest of the UK. Previous research for the Department of Trade and Industry (DTI)[25] has noted that London's financial and business services are a highly integrated set of activities suggestive of the importance of agglomeration economies and clustering.

The integrated nature of the London clusters identified by the DTI research, which closely mirror the sectoral specialisations noted in Table 3.1, is also an important driver of the performance of these sectors. The research for the DTI[25] maintains that:

> 'In the UK context, its [London's] range of internationally competitive industries and strong clusters is unique. It can be argued that its economic strength arises from the diversity of its clusters combined with the extent of mutually re-inforcing interdependencies between them'

Further evidence as to the practical economic gains to be acquired from a spatial concentration of particular economic activities comes from previous research into financial and business services in the City of London[26]. This research produced the following rough estimates:

- A five fold increase in the volume of managed funds reduces unit operating costs by two-thirds.
- In insurance, unit operating costs typically fall by ten per cent when volumes double.
- For banking, unit operating costs fall by 15 per cent when volumes double.

Overall this research estimated that a doubling in scale of 'City Type' financial and business services reduces unit costs by around 18 per cent. City type financial and business services are defined as wholesale financial services, such as commercial banking and insurance, and foreign exchange and securities dealing, and related professional advisory services such as legal and accountancy services.

The concentration of corporate-focused financial services in London also appears to be a factor reducing the cost of capital to UK businesses. Previous research[27] indicates that the UK has the lowest spread between deposit and lending rates in a sample of 21 countries from the Organisation for Economic Co-operation and Development (OECD), and also a relatively low lending rate.

The analysis in this chapter has identified London's specialisations in a wide range of financial and business services; ICT; creative industries such as media and publishing; and leisure activities. Past research has reached very similar conclusions as to the areas of London's economic strengths. The bulk of London's business specialisations sell their products and services to other businesses. The performance of London's specialised, corporate-focused sectors is widely regarded as strong as they enjoy high levels of productivity and are recognised as being internationally competitive. The co-location of many companies engaged in London's specialisations allows them to benefit from agglomeration economies. UK corporate and other customers are able to tap into and acquire benefits from London's diverse range of specialisations via trade as London sells its expertise to customers in other parts of the UK. Thus London's specialist strengths are clearly of benefit not just to the capital but to the UK economy more generally. As a new report on the economic potential of London and the core cities[28] concludes:

> 'London's success on the world stage ought to be a factor *strengthening* the competitive position of the Core Cities compared with provincial cities (and many capital cities) in other European nations. Proximity to London – cultural as well as geographical – means that it is likely to be easier, for example, for a business headquartered in one of the English Core Cities to access the world's best advertising or corporate finance expertise than it is for a firm located in almost anywhere else in Europe.'

Estimating London's regional trade linkages[29]

There is no published data on trade in goods and services between regions in the UK. Regional input-output tables would provide this information, but these tables are published only for Scotland, Wales and the UK. These tables also tend to be considerably out of date.

This problem has been addressed by estimating what London and the rest of the UK's input-output tables might have looked like for 2003. Ideally in constructing such a table, one would carry out a detailed survey to inform the supplier and purchasing relationships. However, the costs of such an approach would be considerable. Given this, an approach to estimate the linkages based on publicly available information and a series of assumptions has been adopted.

The techniques adopted are those documented by A.T. Flegg and C.D. Webber (1995)[30] and are based on using published national input-output tables and adjusting them to reflect the region of interest. Regional economies import from the rest of the country as well as the rest of the world and hence will have far higher import propensities than the UK. This means a technique is required to scale down the UK coefficients.

Simple location quotients[31] are often used for this purpose. If a region is under-represented in a particular industry, one assumes that this industry would not be able to meet all the region's input demands and hence the coefficient would need to be scaled down to reflect the need for additional imports from other regions. However, as Flegg and Webber note, simply relying on this technique can give misleading results as no account is being taken of the relative size of the supplying and purchasing sector which is important to understand. For example, if the purchasing industry was under-represented in London compared with the UK, it would be less important if the sectors supplying this industry were also relatively small. Furthermore, the region's supplying sector, while potentially under-represented, may have specialised in supplying the purchasing sectors located nearby.

These problems are addressed to a certain extent by using cross-industry location quotients[32]. The logic in using these is that if a supplying sector is relatively small in the region compared with the purchasing sector, then imports will be required from the rest of the country.

Flegg and Webber propose one further refinement, which has been used in the methodology outlined above: that all the cross-industry location quotients should be scaled down to reflect the relative size of the region. The level of scaling suggested is supported by empirical evidence gathered when these techniques were used to estimate (published) Scottish and (survey generated) Peterborough input-output tables.

So far this report has discussed estimating London firms' regional purchases, but consumer purchases and investment also need to be considered. Data for spending by industry is available nationally from the UK input-output tables. In order to assess the proportion of spending by Londoners that goes to London firms, the type of industry and its representation within London has been noted. For example, most consumer spend in the retail sector will be within London, but other industries are not so location specific. For these latter industries it is assumed that spending will be distributed across the country based on where the industries are most prevalent. The final adjustment is based on evidence gathered by using these techniques to approximate the published spending figures from the Welsh and Scottish input-output tables. It is assumed that government spending does not generate imports and exports across regions.

London's balance of regional trade

Having described the process by which Experian Business Strategies (EBS) compiled estimates of London's trade in goods and services with the rest of the UK, this section presents the results and compares them to previous estimates produced by OEF.

Table 3.2 compares estimates of London's imports from the rest of the UK as compiled by EBS and OEF[33]. The OEF estimates are in 2003 prices. The EBS estimates are also for the year 2003, but in 2000 constant prices, though

Table 3.2: London's imports from the rest of the UK, 2003

Sector Imports (£ billion)	EBS	OEF
Agriculture	2.7	2.8
Mining and quarrying	3.7	2.2
Manufacturing	28.3	37.3
Electricity, gas and water supply	5.8	3.4
Construction	8.8	10.4
Wholesale and retail trade	9.8	6.0
Transport & communication	9.6	2.5
Financial & business services	22.6	42.1
Other services	5.7	1.1
Total	97.0	107.8

Source: EBS and OEF estimates

this should not affect broad comparisons. As can be seen, EBS estimates of imports are distinctly lower in both manufacturing and financial and business services.

Table 3.3 compares the same two organisations' estimates of London's exports to the rest of the UK. Once again the figures are on a different price basis. Overall, EBS estimates are distinctly lower.

Finally, focussing on the balance of trade in goods and services, it can be seen that OEF estimate a positive figure for London of £16.6 billion compared with the EBS estimate of a deficit of £10.3 billion. While both organisations predict a large surplus in financial and business services of around £23 billion, OEF estimate much larger surpluses in other (mainly public) services, transport and communications, and the distribution sectors.

Given the lack of official data available on inter-regional trade, the estimates could be considered broadly similar. The areas of the largest discrepancy appear to be:

- Other services – OEF estimates are for lower imports and higher exports.
- Manufacturing – OEF

Table 3.3: London's exports to the rest of the UK 2003

Sector Imports (£ billion)	EBS	OEF
Agriculture	0.8	0.0
Mining and quarrying	1.2	0.2
Manufacturing	13.3	11.6
Electricity, gas and water supply	1.5	2.3
Construction	2.0	6.8
Wholesale and retail trade	7.4	14.3
Transport & communications	9.4	10.4
Financial & business services	45.7	65.7
Other services	5.5	13.1
Total	86.8	124.4

Source: EBS and OEF estimates

Table 3.4: Trade balance (goods and services) London and the rest of the UK, 2003

Sector (£ billion)	EBS	Rank	OEF	Rank
Agriculture	-1.9	4	-2.8	7
Mining and quarrying	-2.5	6	-2.0	6
Manufacturing	-14.9	9	-25.7	9
Electricity, gas and water supply	-4.3	7	-1.1	5
Construction	-6.8	8	-3.6	8
Wholesale and retail trade	-2.4	5	8.3	4
Transport & communications	-0.3	3	7.9	3
Financial & business services	23.1	1	23.6	1
Other services	-0.2	2	12.0	2
Total	-10.3		16.6	

Source: EBS and OEF estimates

estimates are for higher imports.

- Financial and business services – OEF estimates are for higher imports and exports, although the trade balance is similar.
- Overall the EBS estimates show London in deficit with the rest of the UK compared to a surplus as indicated in the OEF estimates.

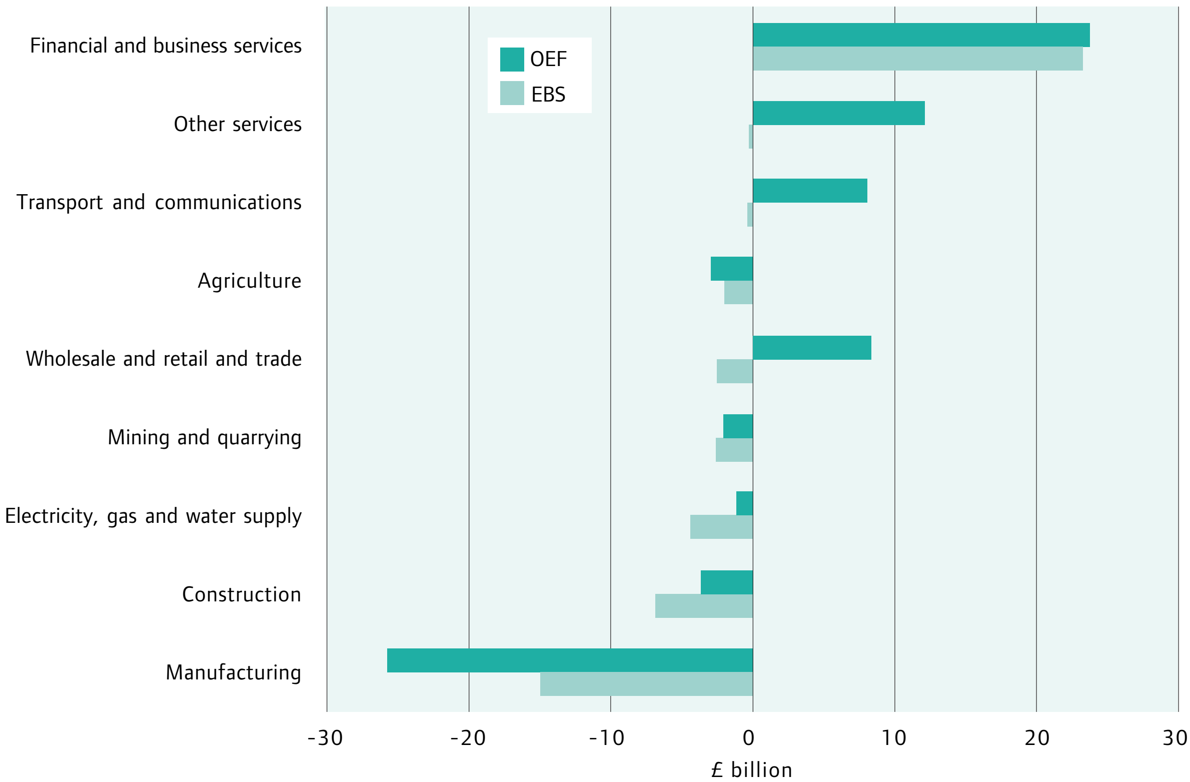
Note that all of these estimates are for goods and services only. They make no allowance for government transfers or income flows (including the flow of commuter incomes earned in London but remitted to other parts of the UK).

Both the EBS and OEF estimates of the pattern of trade between London and the rest of the UK reflect the relative London specialisations discussed earlier in this chapter. This is most clearly illustrated in Table 3.4 which ranks the sectors by the magnitude of the London trade balance. London's strong specialisation in finance and business services comes through both in terms of the sizeable London trade surplus in this sector and its number one ranking. Other areas of service sector activity follow on both the EBS and the OEF rankings. Unsurprisingly given its relative absence in London, manufacturing shows up as the sector with the largest negative regional trade balance for London.

London's role in UK exports

London has a core role in the UK's pattern of international trade. However, this has been little explored until recent research by GLA Economics[34]. This illustrated the pattern of UK trade, estimated London's

Figure 3.3: London's trade balance (goods and services) with the rest of the UK



Source: EBS and OEF estimates

share of UK exports and assessed London's role.

The current account of the UK

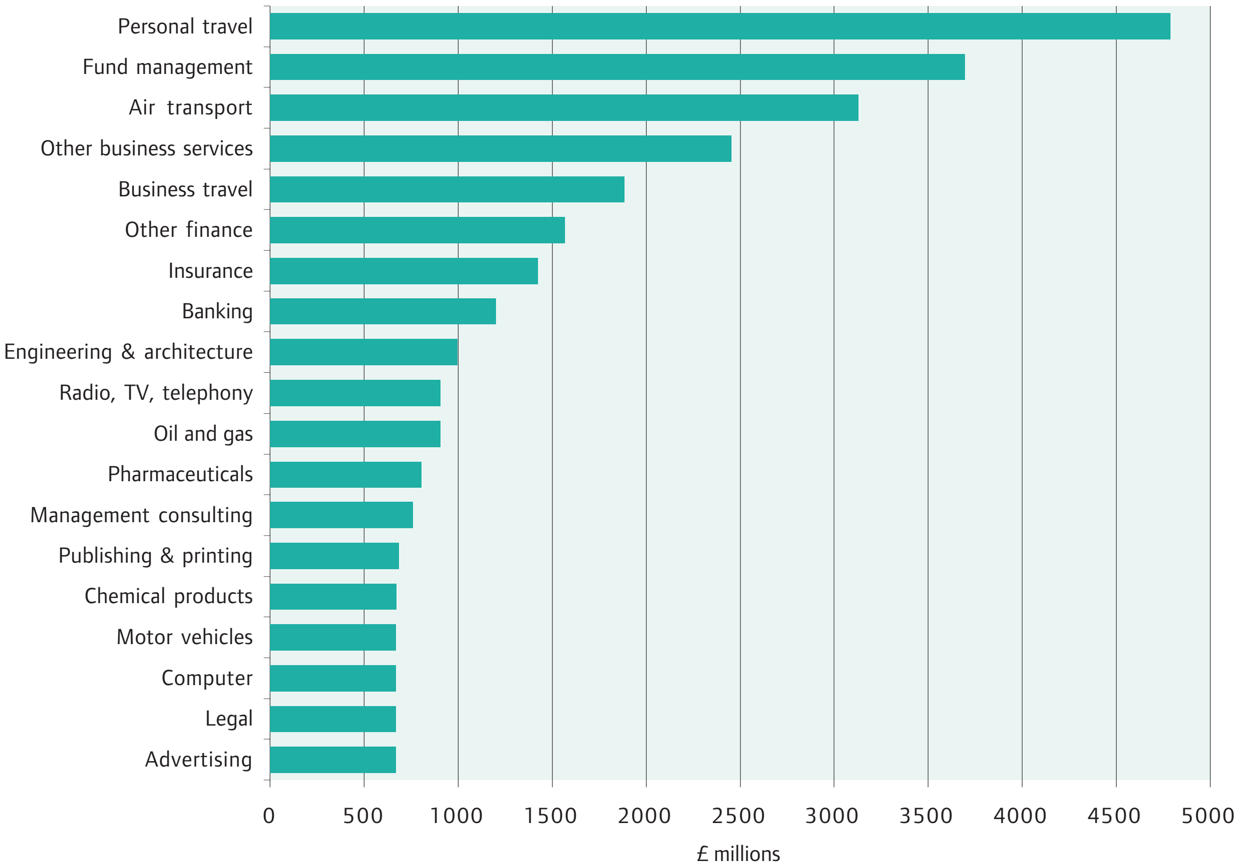
The UK's international trade in goods and services is recorded in *The Pink Book*[35] on the United Kingdom's Balance of Payments. This measures the annual flow of the value of goods and services between the UK and the rest of the world.

In 2002, UK trade consisted of:

- Trade in goods: The UK exported £186 billion and imported £233 billion of goods.
- Within the trade of goods[36], the UK has a deficit across most goods, in particular motor vehicles, electronic equipment, food and drink, and machinery. This is only partially offset by a small surplus in goods such as oil, chemicals and pharmaceuticals.
- Within the trade in services: The UK exported £86 billion of services and imported £71 billion.
- In trade in services[37], the UK has a surplus across most services, in particular business services, finance and insurance, and royalties. The UK has a deficit in air and sea transport services and a deficit in tourism.

Two-thirds of the UK's exports go to only nine countries. The USA is the largest market buying 18 per cent of UK exports, followed by Germany (ten per cent), France (nine per cent) and Ireland and the Netherlands (both with seven per cent). Exports to the USA are more service oriented with the USA accounting for 25 per cent of UK service exports but only

Figure 3.4: What London exports



Source: GLA Economics

15 per cent of goods exports.

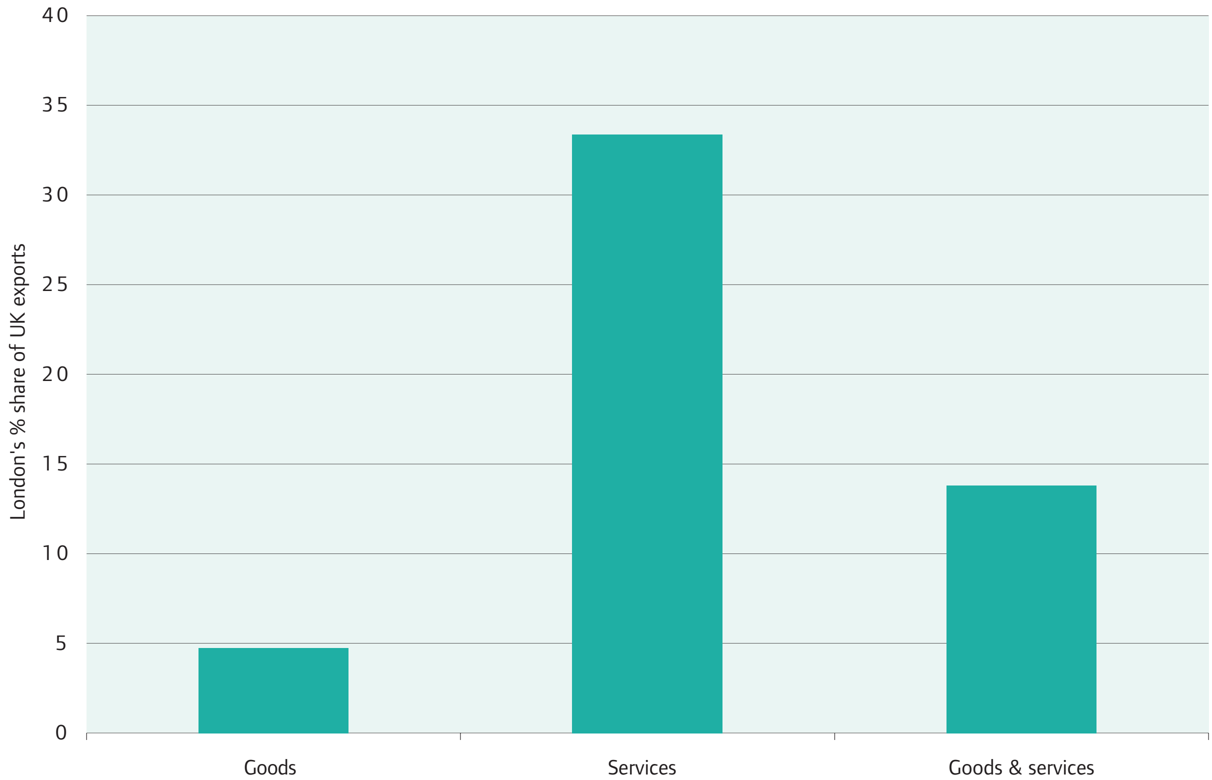
Measuring London's exports

There is no official data of sufficient robustness to measure the overseas exports of a UK city or region. The ONS provide estimates of trade statistics for regions in the UK from information collected via Customs and Excise. These are in their infancy, apply only to visible goods and therefore do not include service exports. Furthermore, close inspection of the results generate serious doubts as to their accuracy and validity. GLA Economics[38] has therefore developed a consistent approach for estimating London's share of exports. This equates London's share of UK exports for each sector with London's share of UK employment for each sector.

GLA Economics estimates the value of London's exports in goods and services as £37 billion, equivalent to around a quarter of London's total economic output. This consists of more than £28 billion of service exports and nearly £9 billion of goods exports. These results are broken down by each sector:

- London's biggest export is arguably London itself. Personal travel exports (overseas visitors coming to London) spend more than £4.8 billion a year. Business travel is an export of a further £1.9 billion.
- London's main exports are services:
  - Financial services sectors including fund management, banking, insurance, and other finance sum to more than £7.8 billion of exports.
  - Business services including consulting, legal, advertising, computing, architecture, engineering, media and a range of other business services sum to more than £7.7 billion.
  - Transport services such as air transport, namely

Figure 3.5: London's share of UK exports



Source: GLA Economics

because of Heathrow Airport, contribute some £3 billion of exports.

- London also exports some visible goods (although London's contribution is not necessarily the goods themselves):
  - Exports of goods such as oil and gas are attributable to headquarters in London.

These estimates of London's exports, based on employment share, are likely to have a downward bias and underestimate London's exports. Firstly, London has higher levels of productivity, especially in key business and financial services than the rest of the UK. Higher output per employee is likely to result in higher exports per employee. Secondly, London's businesses are often more likely to be international facing and export orientated that the rest of the UK. If these issues are considered, the value of London's exports and London's share of UK exports could be much higher.

London's role in exporting UK services

As a baseline, GLA Economics estimates that exports from London contribute at least 14 per cent to UK total exports of goods and services. London is less well represented in manufacturing than other regions in the UK. The manufacturing that remains within London is concentrated in the printing and publishing sector that supplies largely a domestic market rather than an export one. London provides less than five per cent of the UK's goods exports. In contrast, London's key role in many service sectors, especially many exporting service sectors such as fund management and finance, means that London contributes at least 33 per cent of all UK service exports.

London's pattern of exports is different than that for the rest of the UK. For London, service exports out-value goods exports by more than three to one. For the rest of the UK it is goods that out-value services by three to one. London's concentration on exporting services also means that its world trading partnerships are different. GLA Economics estimates that 22 per cent of London's exports go to the USA compared to 18 per cent for the UK. Conversely, London is less dependent on European markets than the rest of the UK.

Table 3.5: London's advantage in UK exports

Sector	% share of exports			Export Location Quotient	
	UK	London	Rest of UK	London	Rest of UK
Fund management	2.0	10.0	0.7	5.0	0.4
Audio-visual services	0.4	1.7	0.2	3.8	0.6
Business travel	1.4	5.1	0.8	3.6	0.6
Personal travel	3.6	13.0	2.2	3.6	0.6
Air transport	2.5	8.5	1.6	3.4	0.6
Other finance	1.3	4.2	0.8	3.3	0.6
Advertising	0.6	1.8	0.4	2.8	0.7
Legal	0.8	1.8	0.6	2.4	0.8
Monetary finance	1.4	3.2	1.1	2.3	0.8
Management consulting	1.0	2.0	0.8	2.1	0.8
Accounting	0.3	0.5	0.2	2.0	0.8
Other business services	3.3	6.6	2.8	2.0	0.8

Source: GLA Economics

London's exports do not compete with the rest of the UK

London's advantage in exporting particular services means that businesses in London are not directly competing for overseas markets with businesses in the rest of the UK.

In much the same way as 'location quotients' are used to illustrate an area's relative advantage in terms of employment, location quotients for exports are useful to show an area's comparative advantage for international trade. A given sector's percentage share of London's exports divided by the sector's percentage share of UK exports is London's export location quotient. When this location quotient has a value greater than one, this sector is a comparative advantage for London. Similarly, if the location quotient is less than one, the sector is a comparative advantage for other regions in the rest of the UK.

Table 3.5 shows the sectors in which London has its highest comparative advantage for exports. UK exports for financial sectors such as fund management and banking; for travel and air transport; creative sectors such as audio-visual services and advertising; and business services in law, consultancy and accounting, are exported mostly from London. The rest of the UK does not have an export advantage in these sectors and is not competing with London for export markets.

Table 3.6 contrasts this and shows where London has its weakest comparative advantage for UK exports. In primary goods such as mining and agriculture, then in manufactured goods from textiles to motor vehicles, London does not have an advantage. These sectors have their advantage in other regions of the UK and so exporters in these sectors are rarely in competition for markets with exporters from London.

London's opportunity is the UK's gain

As the UK has moved from an industrial economy to a service economy, the pattern of UK exports has changed. Although half of UK exports continue to be goods, the growth in UK exports is led by services.

From 1992 to 2002, the nominal value (not

Table 3.6: London's disadvantage in UK exports

Sector	% share of exports			Export Location Quotient	
	UK	London	Rest of UK	London	Rest of UK
Machinery & equipment	5.9	1.6	6.6	0.3	1.1
Rubber & plastic products	1.5	0.4	1.7	0.3	1.1
Chemical products	6.7	1.8	7.5	0.3	1.1
Fabricated metal products	1.4	0.4	1.6	0.3	1.1
Motor vehicles	7.0	1.8	7.8	0.3	1.1
Non-metallic products	0.7	0.1	0.7	0.2	1.1
Textiles	1.1	0.2	1.2	0.2	1.1
Basic metals	2.4	0.3	2.8	0.1	1.1
Other transport	4.7	0.6	5.4	0.1	1.1
Agriculture	0.4	0.0	0.4	0.1	1.1
Petroleum products	2.1	0.1	2.5	0.1	1.2
Mining & quarrying	1.7	0.1	1.9	0.1	1.2

Source: GLA Economics

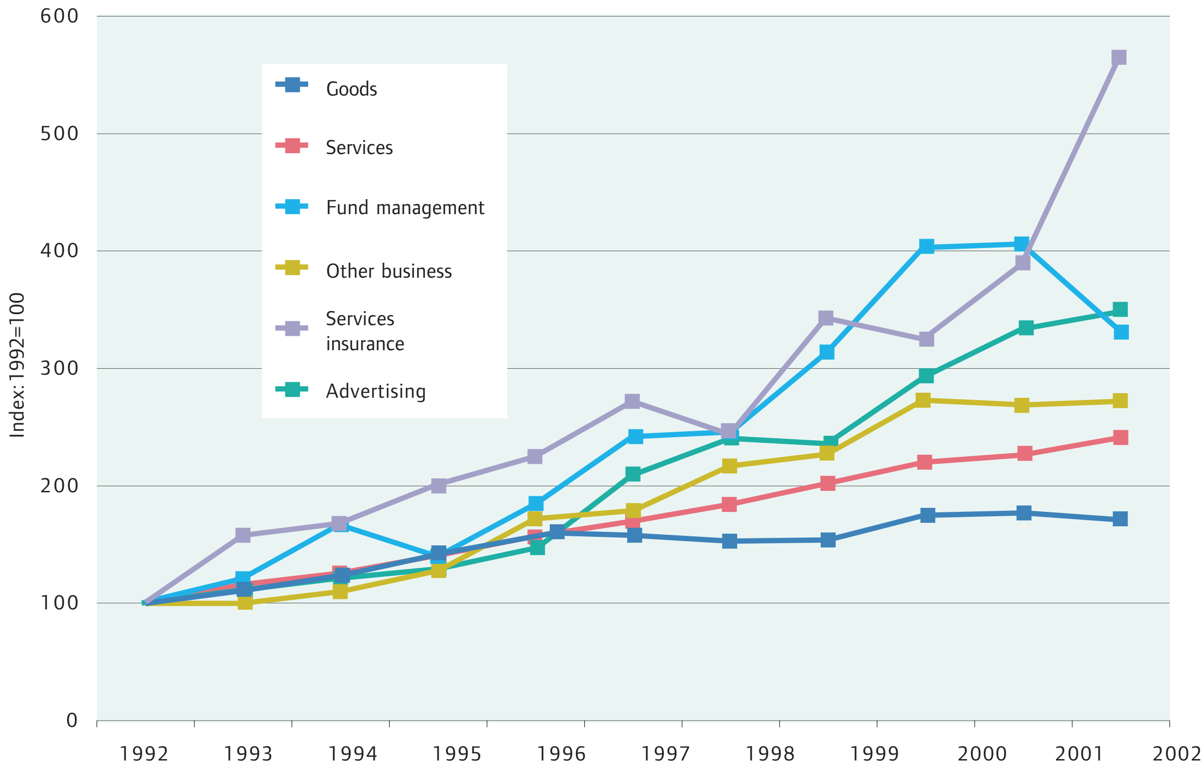
accounting for inflation) of UK goods exports grew by more than 70 per cent. The growth in UK service exports was more rapid – an increase of 140 per cent. This growth was uneven across the exporting service sectors. Business services increased by 170 per cent, fund management by 230 per cent, advertising by 250 per cent and insurance by more than 400 per cent.

Each of these service sectors are heavily concentrated in London with London having 70 per cent of UK jobs in fund management, 40 per cent of jobs in advertising and 20 per cent of jobs in insurance. London also has the main concentrations of jobs in business services such as law, consulting and accounting.

London's economic growth goes alongside export growth in services. As the UK becomes increasingly in deficit as a net importer of goods, it is the surplus in exports of services that sustains the UK's balance of payments with the rest of the world.

The export success of key service sectors in London allows the country as a whole to buy goods from across the world. As London grows, or more specifically those financial, business and creative sectors that thrive in London continue to grow, London increases in importance in supporting the international trading position of the UK.

Figure 3.6: London's opportunity – the growth in exports of services



Source: GLA Economics

Chapter 4:
London as a world city

Key points:

- London is one of the four leading world cities alongside New York, Paris and Tokyo.
- London is a global centre for financial and business services.
- Demand for London's financial and business services is global and this is a key factor supporting the concentration of financial and business services in London.
- London acts as a gateway for people and investment into the UK.

The notion that London is a world city is probably universally accepted. However very often those who make this claim do so without making clear what justifies London's status as a world city. This chapter demonstrates empirically that London is indeed a world city and explains how this benefits the UK and not just London.

What is a world city?

In loose terms, world cities are centres of power and influence that affect not just the city's national economy, but also the global economy. In the 1970s this was defined in terms of the presence of the headquarters of multinational companies. This developed into the idea that world cities acted as 'control centres' housing corporate headquarters, corporate orientated financial services, and supporting business services all accessible via major transportation nodes. Together this bundle of activities allows business establishments within world cities to coordinate economic activity across the world. A seminal work in this literature[39] argued that the internationalisation of both the business service sector and the financial system had made cities centres of 'management and coordination' of the global economy.

In the last few years there have been significant advances in attempts to empirically identify which cities can robustly be defined as world cities on the basis of the ideas above[40]. One highly influential study was based on the presence of global financial and business services firms, which have multi-city, multi-state locations. This has been done using data for four significant corporate services: accountancy, advertising, banking, and law[41]. Cities were assessed as having either a prime, a major or a minor centre for each of these four activities, scoring three, two and one respectively for such a centre. Hence cities could score from one to 12. London and just three other cities – New York, Paris, and Tokyo – achieved the maximum score of 12. This research has established in a robust fashion that London is not just a world city, but one in the top rank of world cities alongside New York, Paris, and Tokyo. The research also revealed the extent to which London's position in the world economy is unique in comparison with other UK cities. After London, the highest scoring UK cities were Birmingham and Manchester which scored just two points, and were not considered by the authors to be world cities.

Further research has looked at connections between cities[42]. The extent to which a city is connected to others is calculated from data about whether financial and business service firms in a city have offices in other cities. London emerges as the most globally connected city in the world ahead of New York in second place. Again the extent of London's connections with other major cities is unique in a UK context. After London, the next ranked UK cities are Manchester and Birmingham which rank 101 and 106 in the world respectively. Interestingly, the UK pattern is mirrored in France with Paris ranked fourth followed by Lyons in 93rd place.

Within this research theme the particular global influence of London has been analysed. The strength of London's connections with other world cities has been analysed by assessing the locations in other world cities of global finance and advanced business services firms in accountancy, advertising, banking, and law which have a presence in London[43]. Table 4.1 shows the top ten cities with the strongest links to London. London's particularly strong links with New York are immediately apparent, but this simple listing immediately illustrates the worldwide scope of London's linkages. The presence of Hong Kong, Singapore and Sydney on the list indicates the legacy of empire and the importance of history in determining London's current economic relations. The inclusion of Brussels points to the importance of more recent political linkages with the European Union.

Table 4.1: Average linkages to London: The top ten world cities

City	Average Linkage Score
1. New York	87
2. Paris	68
3. Hong Kong	64
4. Tokyo	61
5. Brussels	59
6. Singapore	58
7. Sydney	57
8. Milan	55
9. Frankfurt	54
10. Los Angeles	54

Source: Beaverstock et al (2003)

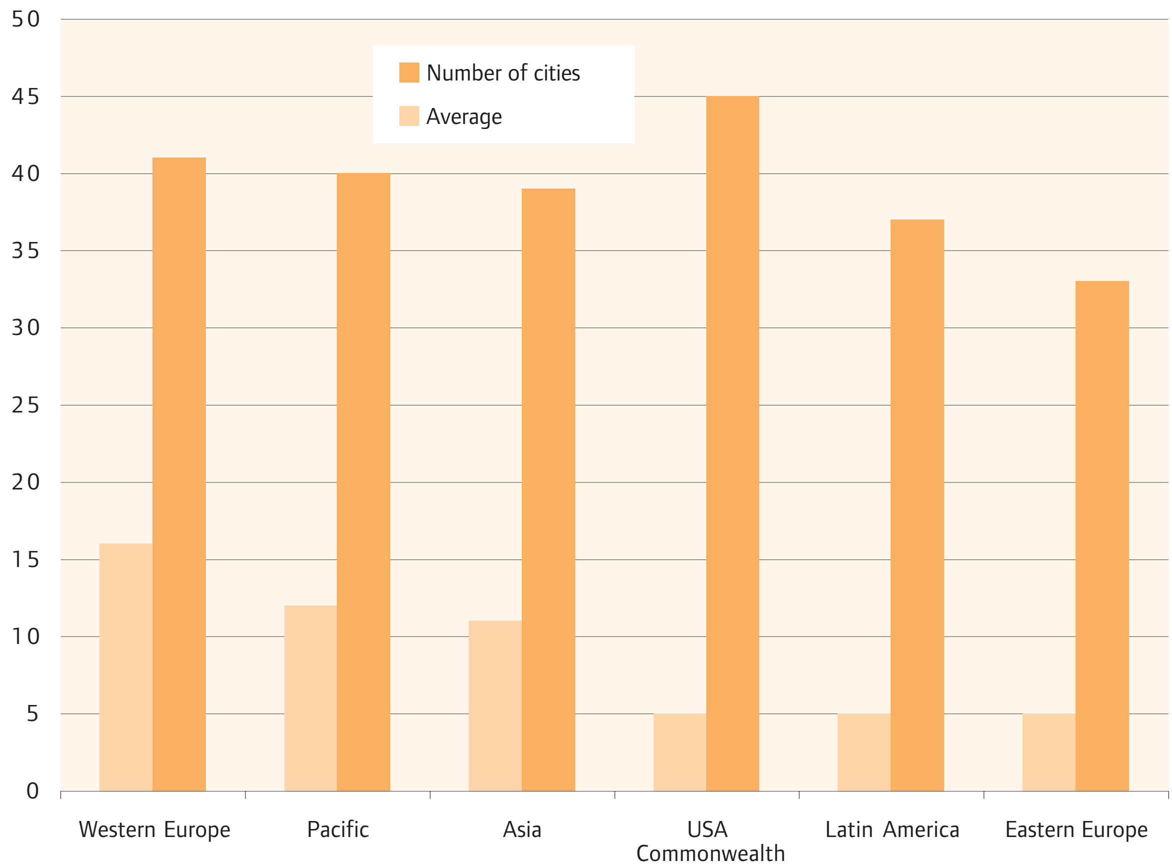
In addition, this research analysed London's linkages to various parts of the world, plus a Commonwealth grouping (Canada, Australia and South Africa). The results are shown in Figure 4.1. The lack of major variations in the average linkage scores across the groupings confirms that London has worldwide economic linkages that are not particularly focused on any one part of the world.

London: A global financial and business services centre

London's position as one of the world's three largest centres of financial and business services alongside New York and Tokyo also provides strong evidence of its global economic role. The overall importance of London as a financial and business centre is shown by previous research for the Corporation of London[44] which calculated London's share of what it terms 'city-type activity'. This is defined as wholesale financial services (e.g. fund management or corporate finances) plus related activities and professional services, such as insurance and legal services. This research estimated that London accounted for 54 per cent of city-type activity in the European Union in 2003 and that London's share has been greater than a half since 1998.

London has maintained a very significant presence in a number of international financial markets (see Figure 4.2). London's 20 per cent share of cross border banking is reflected by the fact that London has the largest number of foreign banks of any of the world's financial centres (ahead of New York, Paris and Frankfurt). In addition, around half of

Figure 4.1: Linkages to London from parts of the world



Source: Beaverstock, Smith and Taylor, 2003, The Global Capacity of a World City: A Relational Study of London

European banking activity is conducted in London. The majority of investment banks either have their head-quarters in London or a major office in the capital.

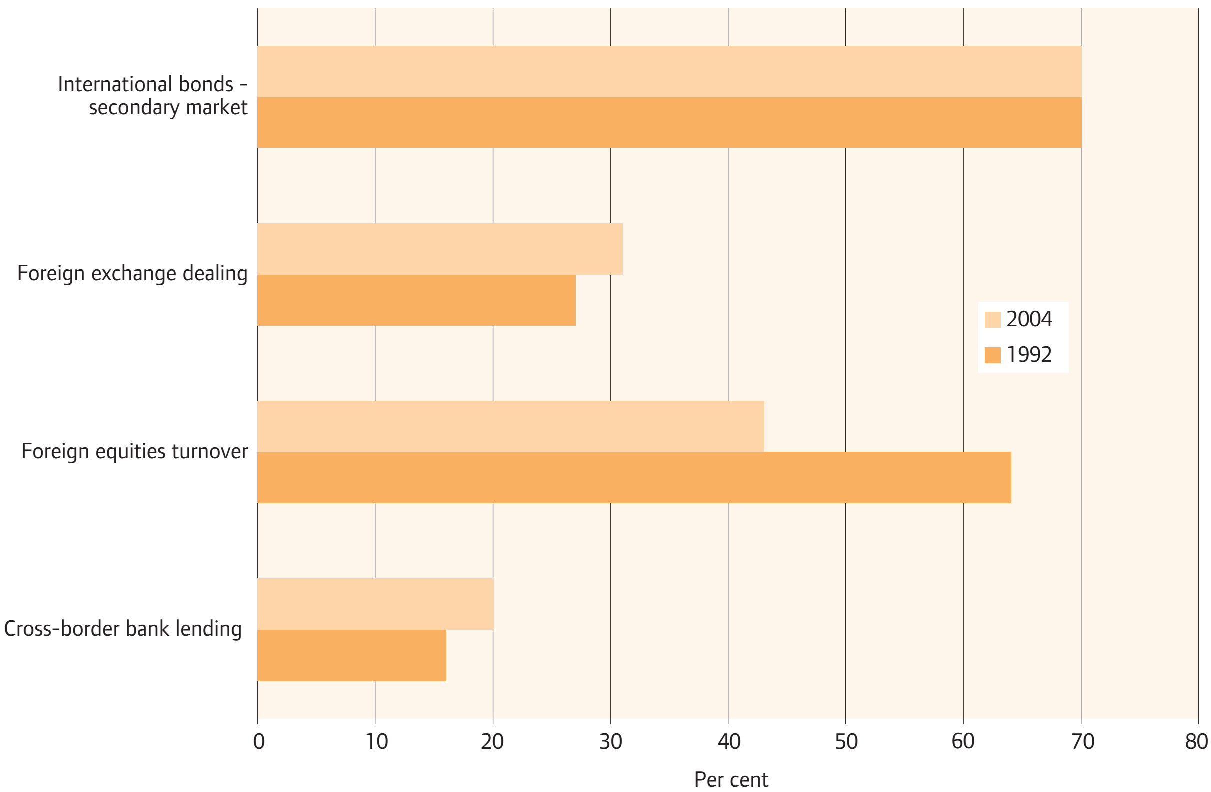
Although London's share of cross-border trading in foreign equities declined from 64 per cent in 1992 to 43 per cent in 2004 it remains by far the most important location for such trading – with New York well back in second place on 19 per cent. London is also the leading centre for the trading of international bonds. It is estimated to account for about 60 per cent of the primary and 70 per cent of the secondary market in international bonds[45].

London is also Europe's leading centre for the management of hedge funds. Depending on exactly what funds are included, London accounts for 70 to 90 per cent of the management of Europe's hedge fund assets. Assets managed in London more than doubled between 2002 and June 2004.

London and New York are the top two world centres for fund management. In 2000, both of these centres had close to $2.5 trillion of assets under management. While Edinburgh and Glasgow together are also an important centre of fund management – estimated to be the 15th largest in the world – the amount of assets under their management in 2000 was estimated to be just over a tenth of that managed in London[46].

London hosts a unique wholesale market in insurance – the London Market. The London Market is the world's leading market for internationally traded insurance and reinsurance and principally entails high-exposure risks. Gross premiums on the London Market were estimated at around £25 billion in 2003 up by three quarters on 1999.

Figure 4.2: London's share of international financial markets



Source: International Financial Services London

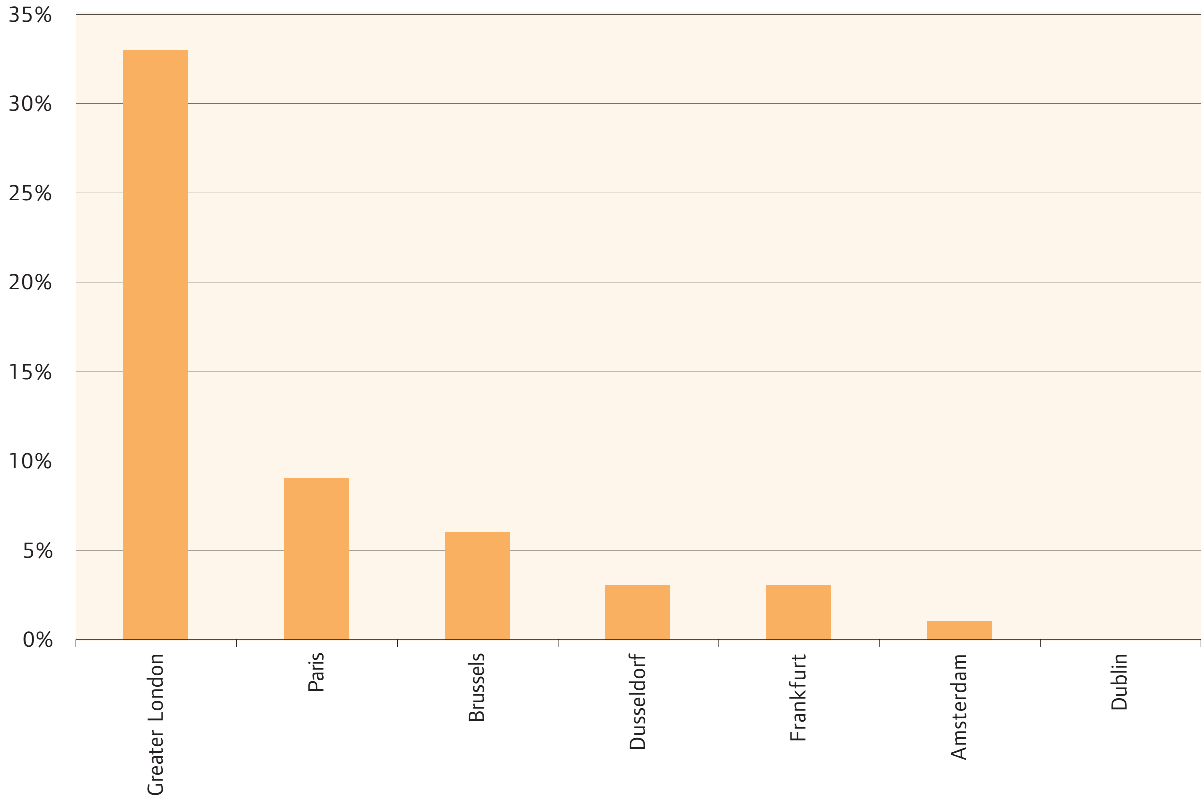
Its share of industrial insurance is ten to 15 per cent. A further gauge of the importance of the London Market is the very high proportion of major corporations that use the market to insure themselves. Ninety-six per cent of FTSE 100 companies and 93 per cent of Dow Jones Industrial Index companies have policies placed on the London Market[47].

London is also a leading centre of professional business services such as legal services. Over 200 foreign law firms were represented in London in 2003. London's importance in the area of international legal services is indicated by the fact that four of the world's largest law firms originate from the UK. The largest four international law firms in London have between half and two-thirds of their lawyers based outside the UK. Seven of the top ten firms ranked by the proportion of lawyers outside their home jurisdiction are from the UK.

The above analysis has demonstrated that London is one of the world's top cities being a global centre of finance and related business services. London will only retain its position as such a global centre if its finance and business services companies provide a world class service to their worldwide customers including businesses located in the UK. As the quote in Chapter 3 from the study of London and the core cities made clear, access to these world class services offers business throughout the UK a key competitive advantage.

The fact that London is a global centre for finance and business services means that demand for such services is not constrained or limited by

Figure 4.3: Location of Fortune Global 500 companies' European headquarters (%) in 2000



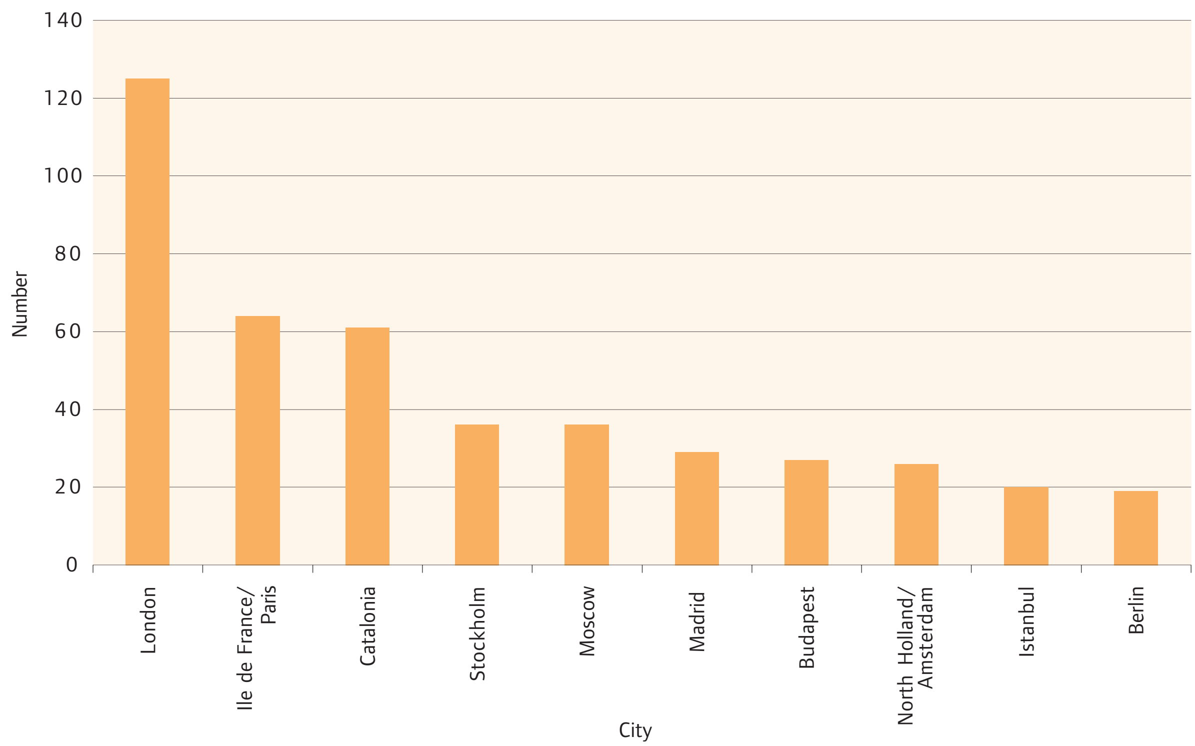
Source: London First Centre 2000

local or national demand. The potential magnitude of global demand is a key driving force supporting the concentration of these activities in London which in turn leads to greater agglomeration effects as noted in Chapter 3. These agglomeration effects boost the performance of the finance and business service sectors in London to the benefit of UK businesses seeking finance and using business services located in London.

The concentration in London of such a strongly performing cluster of finance and related business services encourages the location within London of major corporate headquarters. Figure 4.3 shows that London is the location for 33 per cent of the European headquarters of the Fortune Global 500 companies – well ahead of the second most common location, Paris, with nine per cent. A previous study of the London economy assessed New York, Tokyo, Frankfurt and Paris as the main alternatives to London as locations for headquarters functions[48]. Hence the economic activity associated with London's corporate headquarters is an activity that would often be unlikely to take place elsewhere in the UK if London were to become an unattractive location for major corporate headquarters.

Another significant dimension of London's international role is as gateway into the UK for people and investment. In recent years, London has attracted 20 to 25 per cent of all new investment projects into the UK which were assisted by the UK's official agency for foreign direct investment (FDI), UK Trade and Investment (and its predecessors). However as this only counts FDI projects assisted by the agency there

Figure 4.4: Location of FDI in Europe

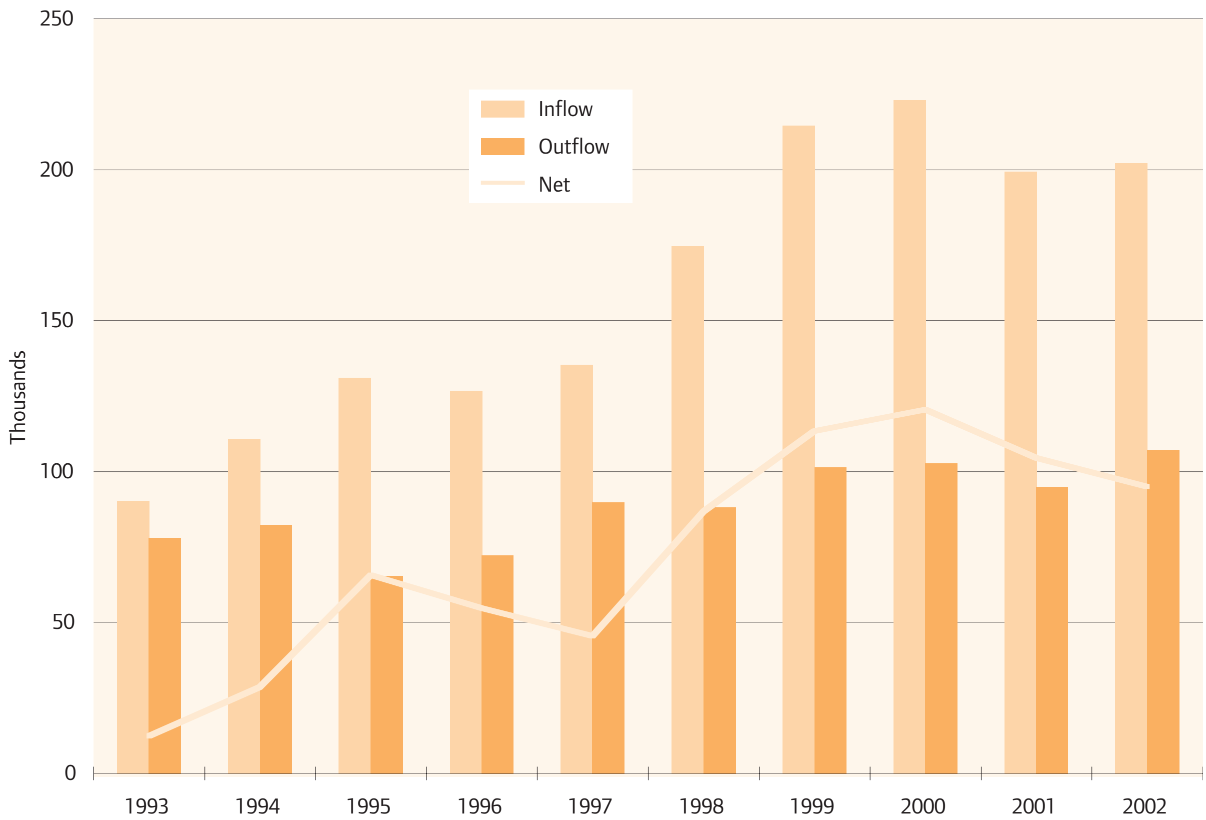


Source: Ernst & Young European Investment Monitor 2003 is scope for underestimating total FDI into London. Data from Ernst and Young's European Investment Monitor suggests that London has in recent years attracted around 35 per cent of all new investment projects into the UK[49]. London is also Europe's foremost location for FDI, see Figure 4.4.

The attractiveness of London for FDI is beneficial to the rest of the UK as companies expand their operations further a field in the UK. A 2002 survey of foreign direct investors in London showed that almost 60 per cent of the companies surveyed planned to expand their operations beyond London to other parts of the UK over the next three years.

London's cosmopolitan character has also proved attractive with migrants from overseas. As seen in Figure 4.5, in the period 1992 to 2003 annual inflows of international migrants more than doubled from under 100,000 to around 200,000. There has also been a more modest increase in international outflows over this period. Overall net inflows of international migrants have grown strongly from an average of around 50,000 in the mid-1990s to over 100,000 on average in the first three years of this century. People born outside the UK make up 35 per cent of London's working age population and migrants to London come from throughout the world[50]. It should be remembered that not all of these will be recent migrants to London, some will have been resident in the capital for years or even decades. Fifty-five per cent of London's international migrants arrived in the UK before 1991. The cosmopolitan nature of London is viewed as supporting London's financial

Figure 4.5: International migration to and from London



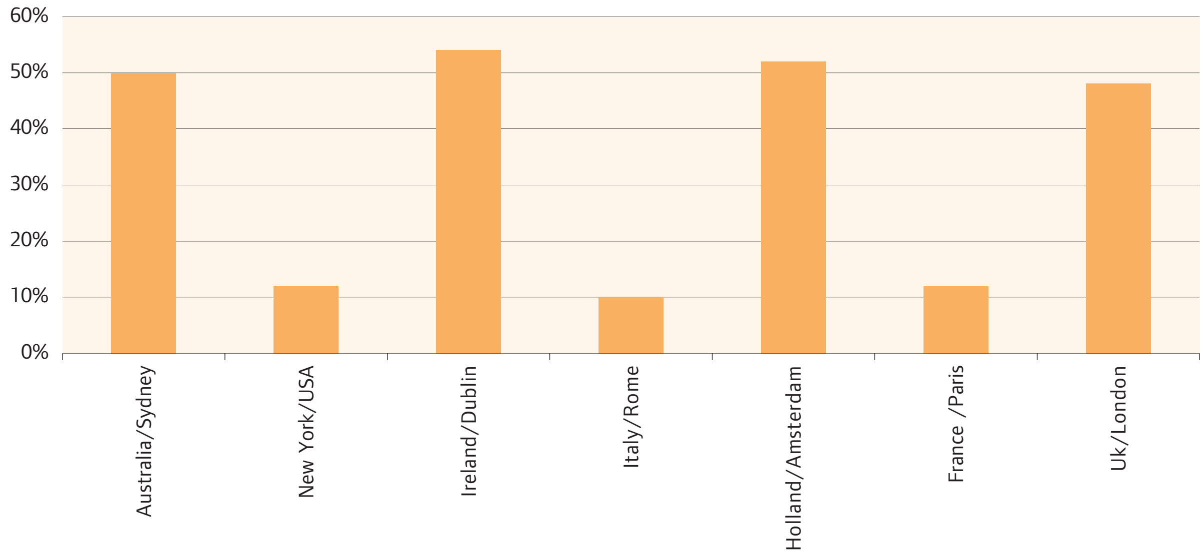
Source: ONS' London: Region in Figures and business services sector. The fact that the skills required for these sectors in London can be obtained from people from many different nationalities and cultural backgrounds is seen as an added plus[51].

London also acts as a gateway to the UK for international tourists. Fifty-nine per cent of overseas visitors arrive in the UK via London's airports. In addition, for 49 per cent of all visitors to the UK, seeing London is the main purpose of their trip, a figure which rises to 60 per cent for holiday visitors. London receives just under a half of all visitors coming into the UK. In this respect London is similar to cities such as Sydney, Dublin and Amsterdam which similarly dominate their countries' international tourism market (see Figure 4.6).

Fifty-five percent of overseas visitors visit both London and other parts of the UK. Although even overseas visitors to London who do not visit other parts of the UK can create benefits for the rest of the UK because their spending in London can lead to demand for goods and services imported into London from the rest of the UK.

London is a global centre of financial and business services and is amongst the first rank of world cities alongside New York, Paris and Tokyo. London's economic linkages are spread across the globe. The demand for London's financial and business services is global. The potential magnitude of this global demand is a key factor supporting the concentration of these activities in London which in turn leads to greater agglomeration effects boosting the performance of the finance and business service sectors in London to the benefit of UK businesses seeking finance and using business services sourced from London.

Figure 4.6: Gateway role of major world cities



Source: Office of National Statistics

Chapter 5:
Filling the coffers: London's tax export

Key points

- London's tax export is larger when growth in London is strong.
- A very large part of the UK's public sector financial surpluses in the late 1990s and early 2000s appears to have originated in London.
- London continues to generate more tax revenues than it receives in public spending.
- In 2002/03 London's tax export to the rest of the UK was between £2 billion and £9 billion despite overall UK public sector borrowing of £25 billion.

Introduction

Past research has estimated the amount of tax revenues raised in London, the extent of public spending in London, and the difference between these two. This past research has consistently shown that in recent years London has raised more in tax revenues than it has received in public spending, meaning London exports taxes to help fund public services in other parts of the UK[52]. This past research has focused on particular financial years. In this chapter, for the first time as far as GLA Economics is aware, a historical analysis of London's tax export is undertaken and estimates are provided for a 14 year period from 1989/90 to 2002/03. This chapter also provides GLA Economics' first estimates of London's tax export for 2002/03, using the most recent data, and incorporating new information on public sector pay costs in London.

Estimating London's tax export since the late 1980s

In order to estimate how London's tax export varies with the strength of the London economy, estimates of how it has varied since the late 1980s are provided[53] [54]. The same methodology has been used as set out in the GLA Economics' *Working Paper 6, Calculating London's tax export*[55].

Historic data on public expenditure for London for the period 1989/90 to 1997/98 has been estimated based on data for the whole of the Greater South East. The details of how this was done and the details of the estimated London public expenditure figures are to be found in Appendix D. Estimates have been made for tax receipts in London over the same 1989/90-2002/03 period on a residence and workplace basis. On a residence basis, taxes are allocated to where workers live, while on a workplace basis taxes are allocated to where workers work. As London has considerable net *in commuting*, this has significant implications for the magnitude of taxes allocated to London. The details of the method used to derive these estimates of London's tax receipts are set out in Appendix D.

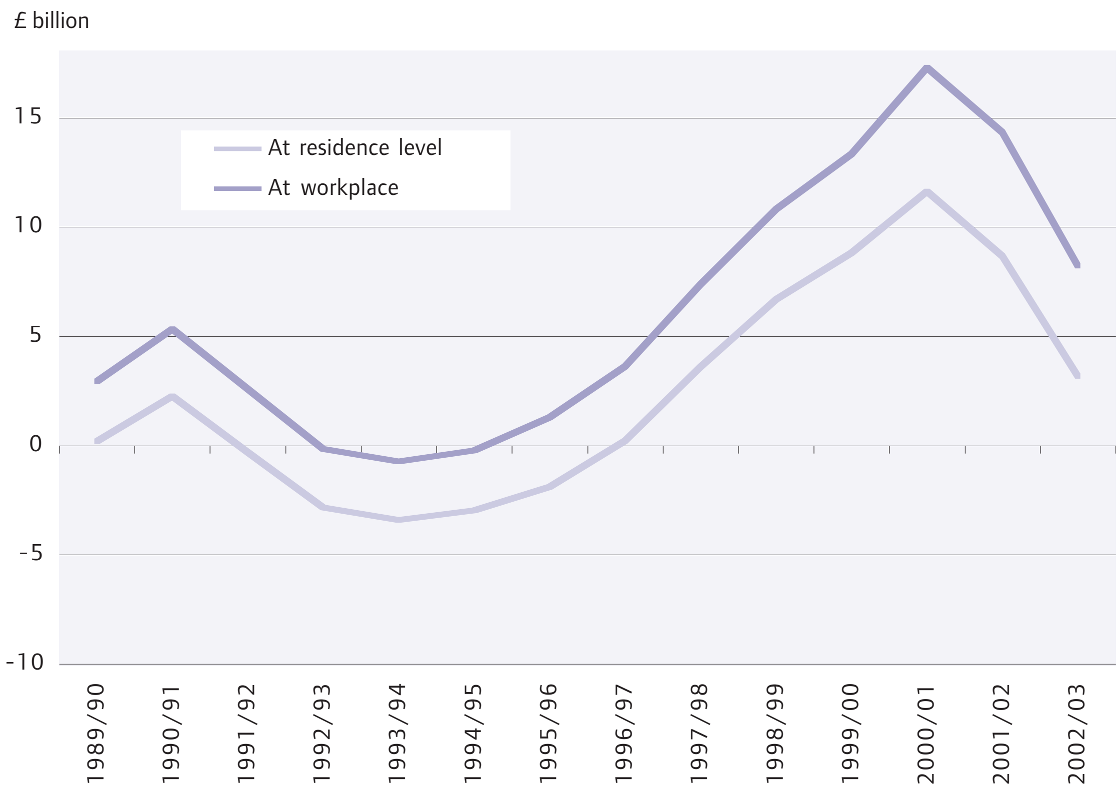
Difference between taxes and public expenditure in London

Figures 5.1 and 5.2 depict the difference between London's taxes and public expenditure over the 1989/90-2002/03 period with taxes calculated on residence and workplace basis, and allocating non-identifiable public expenditure[56] to London in accordance with London's share of identifiable public expenditure and population respectively. A positive difference means that tax receipts are higher than public expenditure. This implies that London is exporting taxes to other regions. A negative budget balance indicates that public expenditure is in excess of tax receipts (i.e. a budget deficit).

Figures 5.1 and 5.2 show that London's fiscal balance went into deficit in the early 1990s recession and then recovered

Figure 5.1: Difference between London taxes and expenditure in nominal terms, 1989/90-2002/03

(Non-identifiable public expenditure allocated using share of identifiable public expenditure)



Source: GLA Economics own calculations

into a substantial surplus as London experienced a period of sustained, substantial growth. This clearly demonstrates a positive relationship between London's economic growth and its fiscal balance.

Relationship between annual real output growth and budget balance

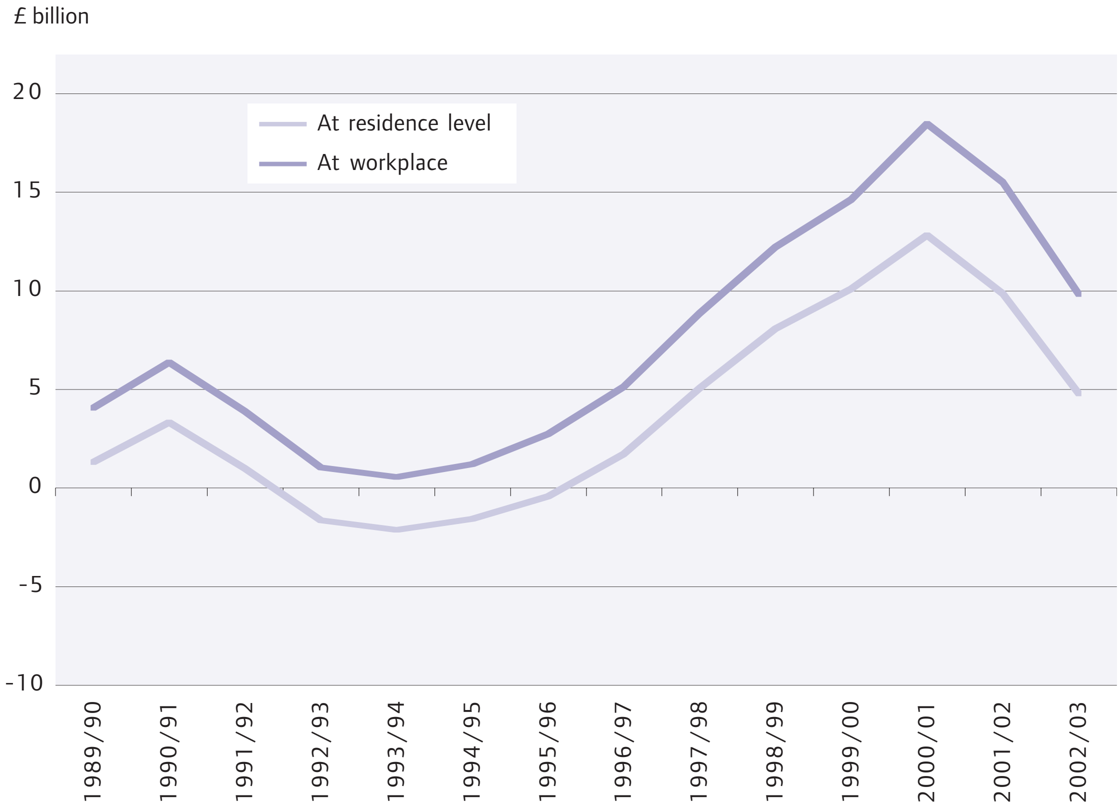
Figure 5.3 depicts London's fiscal balance in real terms and real annual London output growth. London's fiscal balance in real terms is calculated by taking an average of the four possible deficits that can be calculated from the two identified approaches (residence and workplace) for measuring London's taxes and the two identified approaches for measuring London's public expenditure (based on London's share of identifiable expenditure and population). Inflation is taken account of by deflating this series using the UK Gross Domestic Product (GDP) deflator. When the London economy went into recession in the early 1990s its fiscal position deteriorated. Conversely, as the economy grew, London's tax export to other regions increased up to 2000/01. Notably London's tax export has declined following the slowdown in the London economy in 2002. Nevertheless, London contributed more to the UK public purse in 2001/02 and 2002/03 than it did in the early 1990s.

UK and London public finances

The recent decline in London's tax export in 2002/03 should be put into perspective. Figure 5.4 displays the overall UK fiscal position, as measured by public sector net borrowing

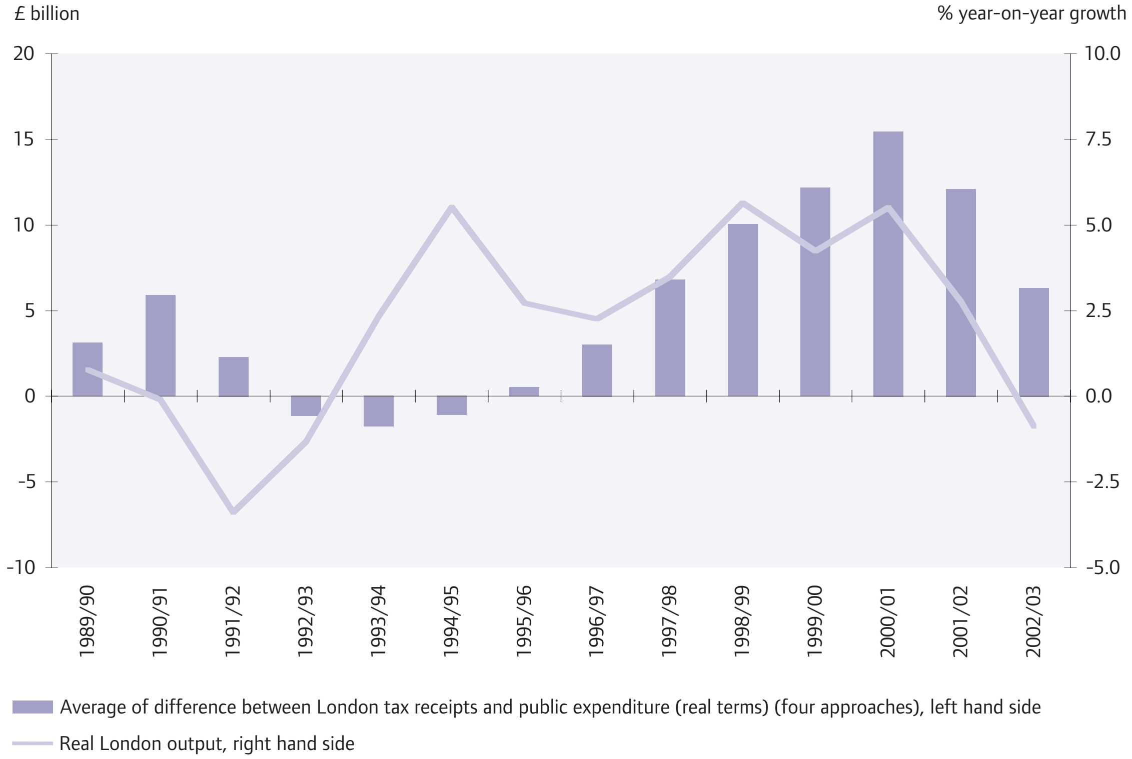
Figure 5.2: Difference between taxes and expenditure in nominal terms, 1989/90-2002/03

(Non-identifiable public expenditure allocated using London's share of UK population)



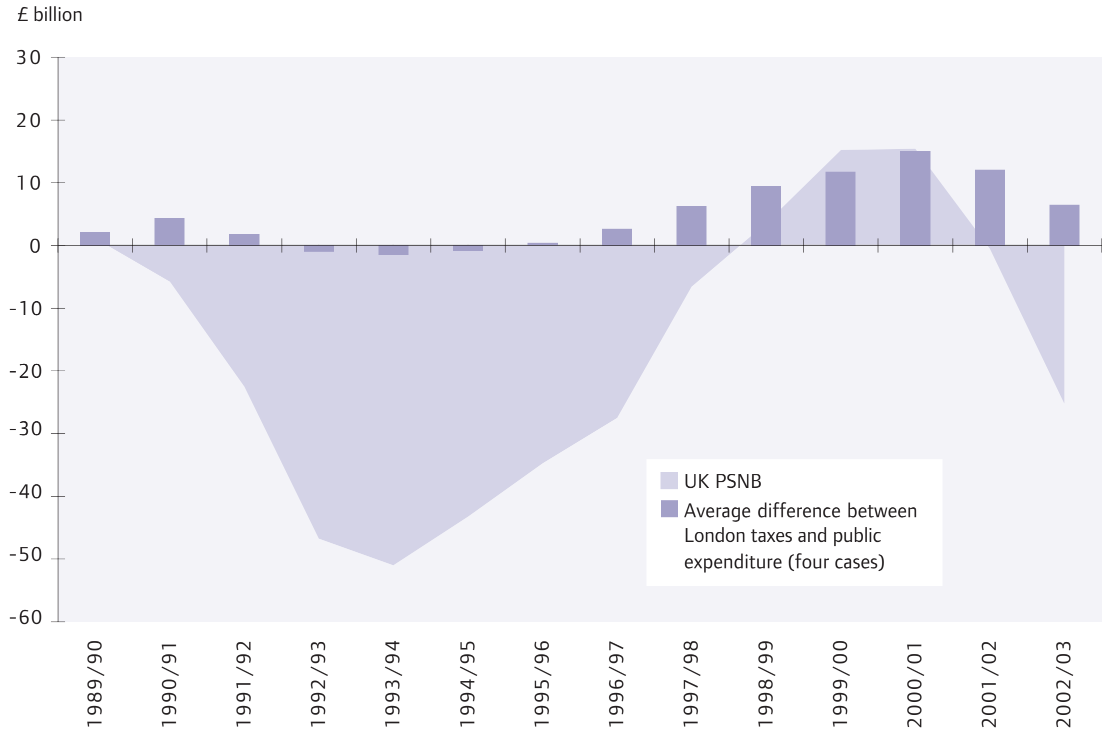
Source: GLA Economics own calculations

Figure 5.3: London's output growth and balance budget in real terms, 2001=100 base year, in the 1989/90-2002/03 period



Source: EBS and ONS

Figure 5.4: UK and London public finances, nominal terms in 1989/90-2002/03



Source: ONS and GLA Economics own calculations

(PSNB), and London's tax export. PSNB measures the difference between total public spending and current tax receipts. In Figure 5.4, an excess of public spending over tax receipts is shown as a negative figure to put the UK PSNB on the same basis as the calculations for London's tax export.

The general trend in the overall UK's and London's fiscal positions follows a similar pattern. When the UK as a whole runs a fiscal deficit, London tends to do so too or only runs a small positive tax export. Most strikingly, the calculations reveal that a very large part of the UK public sector surpluses of the late 1990s and early 2000s resulted from London.

London's Tax Export in 2002/03

Public expenditure in London

Following the same methodology as in GLA Economics' *Working Paper 6*, Table 5.1 presents estimates

Table 5.1: Public expenditure in London in 2002/03

a) Share of spending on identifiable services in London	£ billion
Identifiable spending on services in London	48.0
Plus estimated proportion of other spending classified to London	12.1
Total public expenditure in London	60.0
b) Share of population in London	
Identifiable spending on services in London	48.0
Plus estimated proportion of other spending classified to London	10.5
Total public expenditure in London	58.4

Source: GLA Economics own calculations based on Public Expenditure Statistical Analysis (PESA) 2004 and ONS

Table 5.2: Tax receipts in London in 2002/03

Residence basis	£ billion
Income tax plus tax credit	18.2
Council tax	2.4
Vehicle tax	0.7
Social contributions	9.9
Valued added tax	9.6
Corporation tax	4.7
Stamp duty	0.9
Total customs and excise duties excluding valued added tax	6.9
Petroleum tax and oil royalties	0.2
Capital gains tax and inheritance tax	0.5
Business rates	3.5
Other taxes and royalties	1.7
Interest and dividends	0.7
Other receipts	3.1
Total tax receipts	**63.2**

Source: GLA Economics own calculations based on data from ONS' Financial Statistics (various years) of public expenditure in London for 2002/03, using two different mechanisms to allocate non-identifiable expenditure to London:

a) In line with the share of spending on identifiable services in London.
b) Based on the share of the total UK population in London.

Public expenditure in London was estimated to be between £58.4 billion and £60 billion in 2002/03. All these figures are in current prices.

Tax receipts in London

Similarly, tax receipts in London were estimated using the methodology outlined in GLA Economics' *Working Paper 6*, on a residence and workplace basis. Tables 5.2 and 5.3 show that taxes in London were estimated at £63.2 billion and £68.3 billion on residence and workplace basis respectively in 2002/03.

As expected, once commuters' taxes (on a workplace basis) are included, tax receipts are higher than when only residents are considered.

London's tax export - The difference between taxes and public expenditure

The estimated difference between taxation and public expenditure in London in 2002/03 was calculated using the two mechanisms for allocating non-identifiable public expenditure to London as discussed earlier.

Estimates indicate that London's net contribution to the UK was between £3 billion and £10 billion in 2002/03. London continued to export taxes, but London's tax export has narrowed sharply in 2002/03 compared with the previous estimate of £9 billion to £15 billion in 2001/02, in GLA Economics' *Working Paper 6*. This is due to a combination of much higher public expenditure and broadly stable taxes receipts in the capital (which as these figures do not control for inflation will have fallen in real terms). The much sharper slowdown experienced in the London economy relative to the UK as a whole in 2002 is

Table 5.3: Tax receipts in London in 2002/03

Workplace basis	£ billion
Income tax plus tax credit	20.7
Council tax	2.4
Vehicle tax	0.8
Social contributions	10.7
Valued added tax	9.6
Corporation tax	5.3
Stamp duty	0.9
Total customs and excise duties excluding valued added tax	7.0
Petroleum tax and oil royalties	0.2
Capital gains tax and inheritance tax	0.6
Business rates	3.5
Other taxes and royalties	2.0
Interest and dividends	0.8
Other receipts	3.6
Total tax receipts	**68.3**

Source: GLA Economics own calculations based on data from ONS' Financial Statistics (various years likely to have been a significant factor behind this decline in London's tax export. This should also be seen in the context that overall UK public sector net borrowing has moved from (negative) -£15 billion in 2000/01 to (positive) £25 billion in 2002/03.

Estimates of London's fiscal position using new additional information on pay costs of non-identifiable spending in London

HM Treasury's Public Expenditure Statistical Analysis (PESA) published, for the first time, data on pay costs associated with non-identifiable spending in the UK's regions and countries for 2002/03 only (see Appendix B for an explanation of data used)[57]. This means that now, more data is available on public expenditure which has officially been classified to particular regions, including London. This additional information helps refine GLA Economics' estimates of total public expenditure in London by reducing the amount of non-identifiable expenditure that remains to be estimated (or allocated) to London. Using these new figures, total public expenditure in the capital rises by over £1 billion for both approaches, see Table 5.4. As a result, London's tax export is estimated to be £2 billion to £9 billion in 2002/03 compared to £3 billion to £10 billion (using the methodology used so far). The Corporation of London has also just produced estimates of London's tax export for 2002/03[58]. Their estimate of (negative) – £1 billion to (positive) £15 billion is much wider than, but not inconsistent with, GLA Economics' estimates.

Conclusions

In this chapter, estimates of London's tax export over the 1989/90-2002/03 period have been provided. During this period the economy has experienced two economic downturns, the early 1990s and early 2000s, and strong growth between these two periods. This cyclical pattern affects London and the UK and impacts on London's tax export. In the last recession in the early 1990s, London recorded a fiscal deficit. Conversely, as the London economy grew, London's tax export increased up to 2000/01. Notably, London and the UK public finances have followed similar patterns over time. London's tax export tended to be smaller or even negative when the UK as a whole was running a fiscal deficit. Furthermore, much of the UK public sector surpluses of the late 1990s and early 2000s appear to have originated in London.

Estimates of London's tax export for 2002/03 have been provided, based on the most recent data. Using the approach used in previous GLA Economics published analysis, London's tax export was estimated to be between £3 billion to £10 billion in this financial year, which was considerably lower than the estimates for 2000/01 and 2001/02 of £12 billion to £18 billion and £9 billion to £15 billion respectively (which are themselves very similar to the previous estimates set out in GLA Economics' *Working Paper 6*).

Data on pay costs across regions for 2002/03 has been published in PESA 2004. This is the first time such data has been produced. Incorporating this information into the methodology reduces estimates of the tax export from London in 2002/03 by about £1 billion; from £3 billion to £10 billion, down to £2 billion to £9 billion. Data on pay costs is not available for the period before 2002/03. Hence estimates on this basis can only be constructed for the 2002/03 financial year.

This chapter has indicated that London has run substantial tax exports in recent years, providing funds to support public services in other parts of the UK. As London is, on average, a relatively well-off region (although there are also great disparities in income between some Londoners and others), it is right that it makes a significant contribution to the nation's coffers. The analysis shows that London's tax export is greater whenever London's economy is strong. Thus a stronger London benefits the rest of the UK by providing funds for better public services. For London to continue to play this role, investment is required in London's housing, transport infrastructure, schools and other areas that underpin and support London's continuing economic vitality.

Table 5.4. Comparisons of estimates of London's tax export (£ billion)

	Method used in Economics' *Working Paper 6*		Using information on pay costs associated with non-identifiable spending in London	
Tax receipts (at residence level)	63.2	63.2	63.2	63.2
Public expenditure	60.0	58.4	61.1	59.7
Difference between taxes and public expenditure	3.2	4.8	2.1	3.6
Tax receipts (at workplace level)	68.3	68.3	68.3	68.3
Public expenditure	60.0	58.4	61.1	59.7
Difference between taxes and public expenditure	8.2	9.8	7.1	8.6
Estimated tax export (range)	£3-10		£2-9	

Source: GLA Economics own calculations

Chapter 6: **Conclusion**

Key points:

- London's contribution to the performance of the UK economy rests on its distinctiveness within the UK economy.
- The more successful the London economy, the greater the London tax export available to fund public services elsewhere in the UK.
- This means that failure to invest appropriately in London would ultimately injure not just London but the whole of the UK.

The latest figures from ONS indicate that London accounted for 15 per cent of total UK employment in June 2004 and for 18 per cent of UK output in 2003. Beyond these simple figures, London's contribution to the performance of the UK economy rests on the distinctive role it plays within the UK economy.

Economic growth in London and the other parts of the UK have moved in tandem for at least the last 20 years (data is not available pre-1983). The correlation between economic growth in London and in every other single region or country of the UK is positive, reinforcing the conclusion that the rest of the UK grows faster when London grows faster. This report's analysis of economic growth across the UK provides no evidence to suggest that London grows at the expense of the rest of the UK. The reverse is true and the economic relationship between London and the rest of the UK is one of mutual interdependency and mutual benefit.

Past research has stressed the role that regional migration has in advancing individual careers. Evidence points to London receiving a net inflow of young people in their early 20s and a share of graduates who start their first job in London which exceeds London's share of overall employment. However London experiences a net outflow of adults from their late 20s onwards, including those with degrees or other higher education qualifications. Hence London acts a training ground for young people to the benefit of other parts of the UK when these same young people subsequently migrate out of London taking with them the skills and experience they have acquired in the capital. This pattern of migration flow also shows that there is no one-way brain drain from the regions and countries of the UK into London. The magnitude of flows between London and the UK outside Southern England is very small. This evidence does not support the argument sometimes aired that London is siphoning off talent from these parts of the UK to their detriment.

Trade between individuals, regions and nations, is driven by specialisation. The potential for mutually beneficial trade between the regions and countries of the UK is greater whenever regions specialise in certain activities. Hence the potential for London and the rest of the UK to gain from inter-regional trade is substantial as the economic structure of London is very different from that of the rest of the UK and is another facet of the distinctiveness of London. In particular, London has a much larger concentration of financial and related professional business services, and a smaller manufacturing and public sector.

A detailed analysis of economic activity reveals that London specialises in a broad range of business services and that this is the largest broad area of specialist activity in the London economy. Financial services are London's second largest area of activity. London's specialisations in financial and business services are highly interrelated with one another, and with other areas of specialisation such as ICT. The mutually reinforcing interdependencies between these various specialisations assists their performance. London's financial and business services sectors are acknowledged world leaders and their co-location in Central London leads to agglomeration economies boosting overall business performance and productivity.

In line with this specialisation, London is a net exporter of financial and business services to the rest of the UK. As the customers for these services are other businesses, the strong performance of these activities in London is of direct benefit to the corporate performance of UK businesses. The ease of access to London's areas of world class expertise should be easier for firms located elsewhere in the UK as opposed to firms overseas.

The distinctiveness of London is also indicated by the pattern of its exports to the rest of the world outside the UK. These are strongly skewed towards services rather than goods. London accounts for at least one-third of the UK's exports of services but for less than five per cent of UK goods exports. Hence London's exports tend to complement rather than compete with exports from other parts of the UK.

Research confirms London's position as a world city of the first order alongside New York, Paris and Tokyo. This position is unique amongst UK cities. Research has ranked London as the most globally connected city in the world, but after London the next UK city is Manchester ranked at 101. London's financial and business services sectors serve a global market which supports the concentration of these activities in London and gives UK businesses access to a world class set of services in support of their business activities – a key competitive advantage for the UK economy. London's international role also benefits the UK by acting as a gateway for investment and people – both international migrants and tourists.

London continues to generate more in tax revenues than it receives in public spending and exports tax to the rest of the UK. In 2002/03 London paid between £2 billion to £14 billion more in tax than it received in public spending. This estimate is well down on the £9 billion to £15 billion estimated for 2001/02. London experienced a sharper slowdown in 2002 than the rest of the UK economy and this will have impacted negatively on the tax revenues generated in London. But it is notable that London has continued to generate a net surplus of tax revenues over public spending in 2002/03 at the same time as overall UK public sector net borrowing reached £25 billion. GLA Economics' examination of London's tax export since the late 1980s shows that it is greater whenever the London economy is stronger. Most notably, the calculations suggest that a very large part of the UK public sector financial surpluses of the late 1990s and early 2000s came from London.

A stronger London benefits the rest of the UK by providing funds for better public services throughout the UK. This points to the key need to continue investing in London, in its transport infrastructure, schools and other areas that underpin its economic performance. Failure to invest appropriately in London to support its distinct pattern of economic activity would ultimately injure not just London but the whole country.

Appendix A:
Percentage change in employment results

Table A1: Dependent variable: Employment growth by region, 1989-2001, excluding Scotland

Coefficients:				
	Value	Std. Error	t value	Pr(>|t|)
(Intercept)	0.6467	7.3492	0.0880	0.9320
Neighbour	0.8872	0.4726	1.8771	0.0973

Residual standard error: 4.79 on 8 degrees of freedom
Multiple R-Squared: 0.3058
F-statistic: 3.524 on 1 and 8 degrees of freedom, the p-value is 0.09733

Source: Volterra Consulting
Note: 'Neighbour' is the percentage growth in neighbouring areas

The impact of a neighbouring region's growth on employment growth in the region itself is only statistically significant at ten per cent.

Appendix B: **Data**

Data on public expenditure, taxes and output from various sources has been used in this report's analysis. *Public Expenditure Statistical Analysis* (PESA), produced by HM Treasury, provides data on identifiable expenditure by region and for the UK. This is spending which is recognised as being incurred on behalf of a particular population and allocated to regions and countries in the UK.

HM Treasury publishes data on UK tax receipts in its budget publications. However, detailed figures are only available from 1999/00. Prior to this financial year, the Treasury presents only more aggregated figures for UK tax receipts. ONS publishes, in Financial Statistics, detailed information on central government funds and accounts that are comparable with the Treasury figures. Financial Statistics provides historical data on UK tax receipts. Data on national insurance contributions made by employees and employers are taken from the ONS's *Blue Book*.

At regional/local level, official figures on business rates and council taxes are already available for London. These figures are published in the Office of the Deputy Prime Minister's (ODPM) publication *Local Government Financial Statistics*.

In order to derive estimates of the tax revenues generated by London, London's share of UK output, consumption expenditure, and similar measures are used as relevant mechanisms. ONS Regional Accounts publishes data on consumer's expenditure (for 1994-1999) and Gross Valued Added (GVA) (for residence and workplace) at the regional level from 1989 to 2002.

Appendix C:
Implications of data revisions for some financial years in the report

Since the publication of the Case for London, new data has been released by ONS and HM Treasury for 2002 and for the financial year 2002/03. Table C1 shows the differences between the data published in PESA 2003 and 2004 for the financial years 2000/01 and 2001/02.

Table C2 shows the differences between the revised ONS data on GVA and compensation of employees in the UK and London for 2000 and 2001 (published in April 2004) with the previous data published in 2003. Generally, new figures indicate upward revisions to

Table C1: Differences between figures published in PESA in 2003 and 2004

Public expenditure categories	2000/01 £ billion	2001/02 £ billion
UK total managed expenditure	0.3	0.9
UK identifiable expenditure	3.1	6.4

Source: GLA Economics based on PESA 2003 and 2004

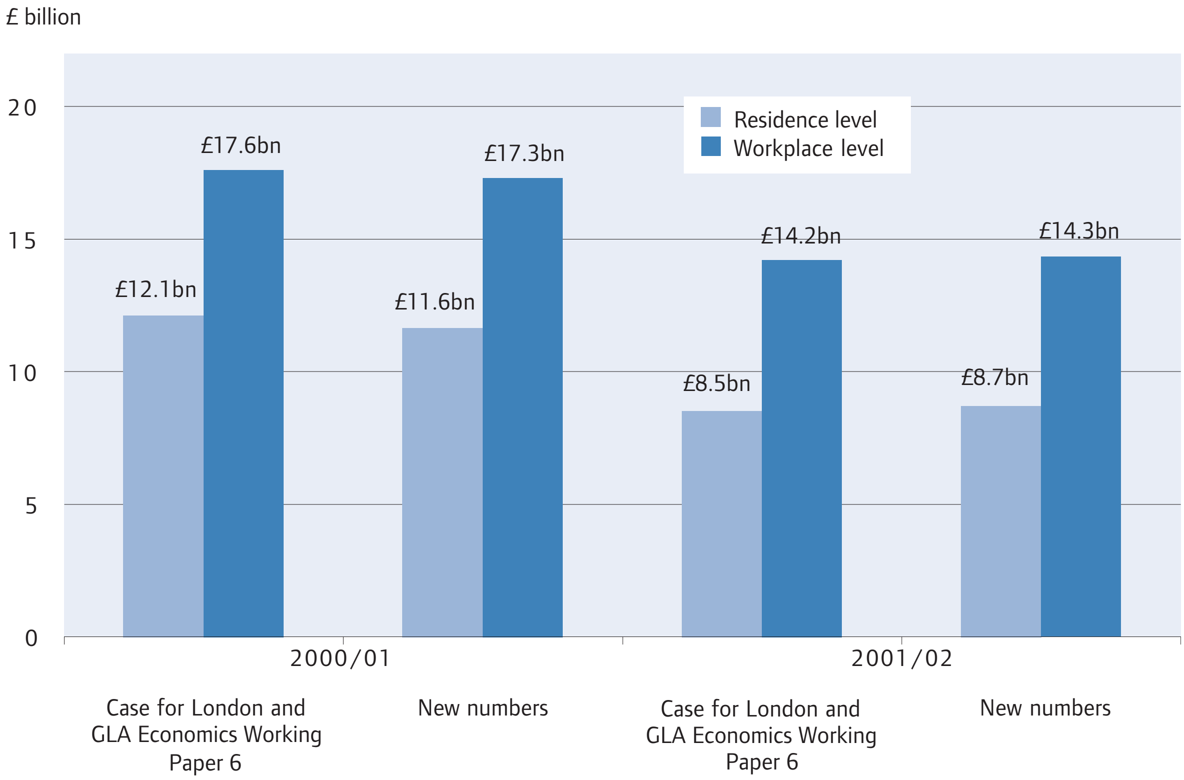
Table C2: Differences between figures published by ONS in 2003 and 2004

Variables	2000 £ billion	2001 £ billion
UK GVA	1.1	6.7
GVA in London (residence)	-0.1	0.4
GVA in London (workplace)	-0.2	0.003
UK compensation for employees (residence)	7.6	7.7
Compensation for employees in London (residence)	1.6	1.9
Shares		
London GVA share (residence)	0.0	-0.1
London GVA share (workplace)	0.0	-0.1
London compensation for employees (residence)	0.1	0.1

Source: GLA Economics based on ONS data

Figures C1: Previous and new estimates of London's tax export, 2000/01 and 2001/02

Non-identifiable expenditure allocated in line with London's share of identifiable public expenditure



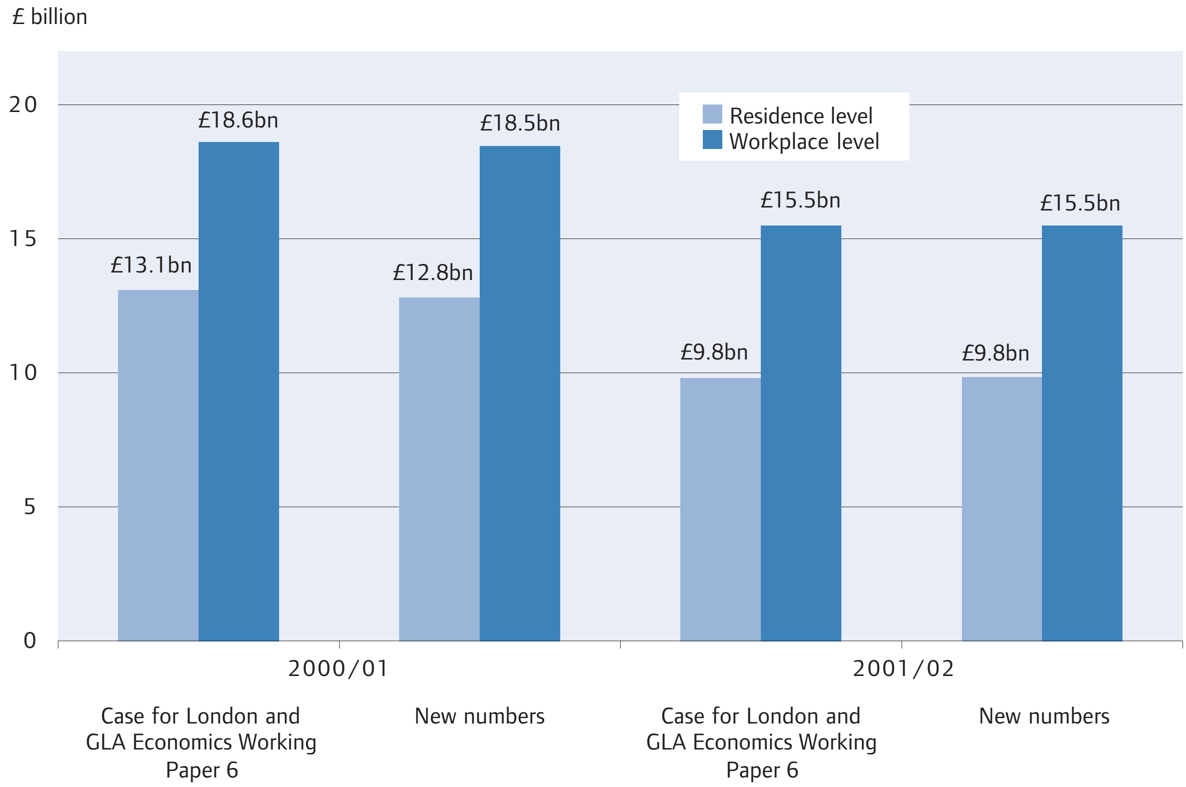
Source: GLA Economics own calculations

GVA and compensation for employees in the UK and London in 2001. Most of the variables in 2000 were also revised upwards. Although GVA in London on both a residence and a workplace basis were revised down. London's share of total UK GVA on the new figures were lower in 2001. London's share of compensation of employees rose in both 2000 and 2001.

These data revisions produced new estimates for tax revenues for 2000/01 and 2001/02 compared to the previous estimates provided in the Case for London and GLA Economics' *Working Paper 6*. However, the differences between the old and new estimates of the budget balance are small, see Figures C1 and C2.

Figure C2: Previous and new estimates on London budget balance, 2000/01 and 2001/02

Non-identifiable expenditure allocated in line with London's share of the UK population



Source: GLA Economics own calculations

Appendix D: **Historical estimates of tax and spending in London**

The 2003 edition of PESA published historical identifiable public expenditure data by region for the years 1987/88 to 2000/01 but only for the following six English regions:[59]

1) North and North West
2) Yorkshire
3) East Midlands
4) West Midlands
5) South West
6) South East and East Anglia, (including London) – the Greater South East

From 1998/99 onwards public identifiable expenditure data is available for the nine Government Office Regions from PESA 2004.

As historical data on public expenditure is only available for the Greater South East as a whole, in order to be able to compare public expenditure for the period 1989/90-1997/98 with figures for 1998/99-2002/03, the identifiable public expenditure on services in London in each financial year over 1989/90-1997/98 has had to be calculated from the PESA figures for total expenditure in the Greater South East. Identifiable public expenditure in London for this period has been calculated using London's proportion of total Greater South East expenditure from the 1998/99 to 2002/03 period. This proportion is equal to 42 per cent. It has been assumed that this proportion is constant in each year over the period 1989/90-1997/98.

Figure D1 presents total public expenditure in London using two different mechanisms to classify a part of non-identifiable expenditure in the UK to London:

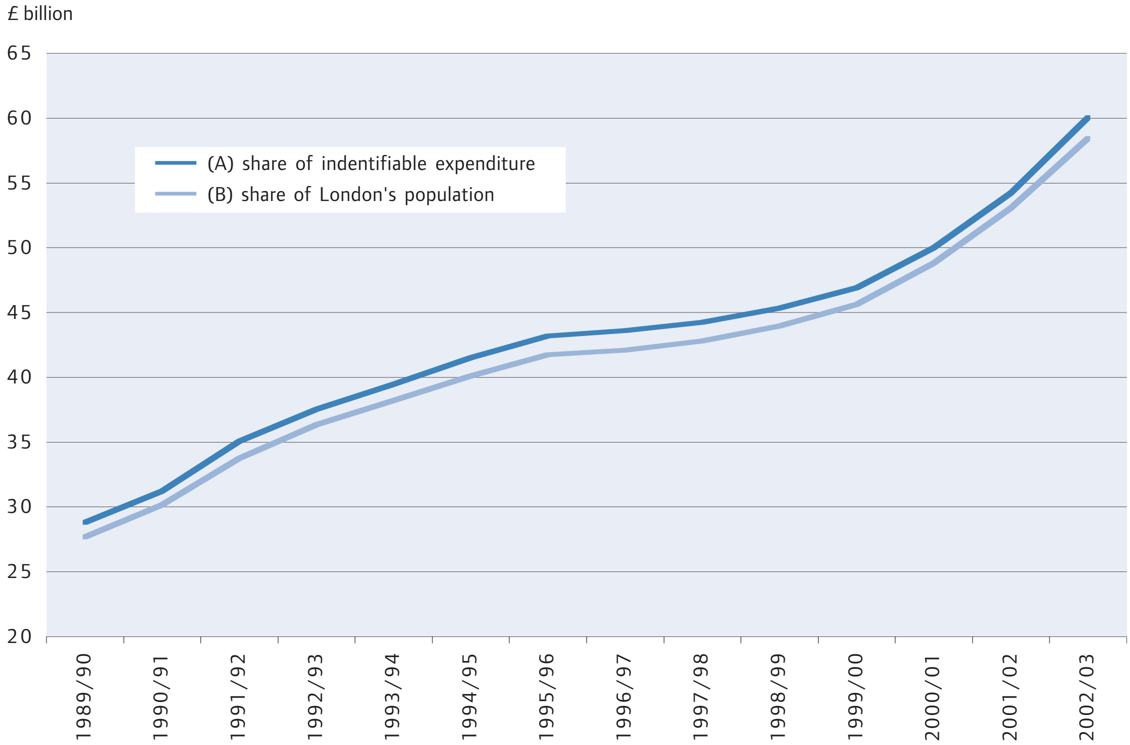
A) In line with London's share of identifiable expenditure.
B) London's share of the UK population.

On both estimates, public expenditure in London has been increasing in nominal terms since 1989/90. Growth has accelerated since 1999/00. This acceleration is consistent with growth in public spending at the UK level as the Government has sort to improve public services by increasing the available resources. In 1989/90, public expenditure in London was estimated to have been between £27.7 billion and £28.8 billion. These figures had more than doubled by 2002/03 to be between £58 billion and £60 billion.

Taxes

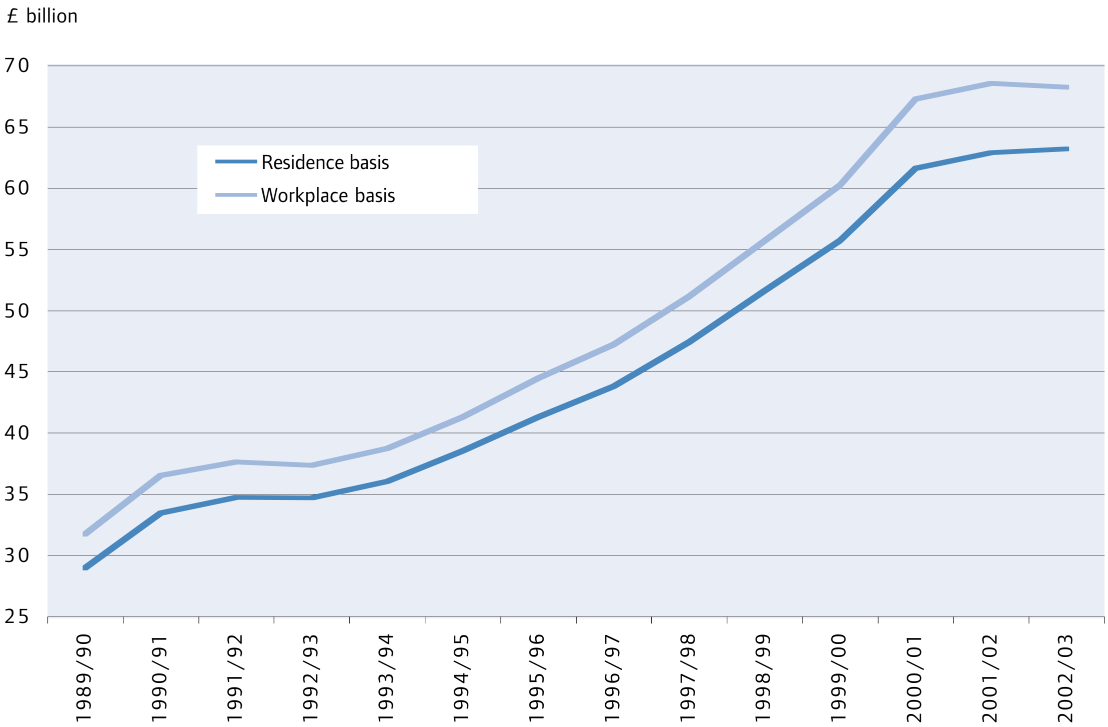
The majority of the data on UK taxes used here are taken from the ONS publication *Financial Statistics* since 1989/90. During the 1990s, Governments have introduced different taxes (see Box D1). As mentioned before, at regional/local level data is only available for council taxes and business rates from the ODPM. However, figures on business rates and council taxes for some financial years are not available meaning assumptions have been made to derive these figures.

Figure D1: Total expenditure in London, 1989/90-2002/03



Source: GLA Economics own calculations based on data from PESA 2003 and 2004

Figure D2: Tax receipts in London, 1989/90-2002/03



Source: GLA Economics own calculations based on ONS' Blue Book, Financial Statistics (various years) and their regional figures.

Box D1. The history of taxes

Taxes introduced in the 1990s at national level:

- The insurance premium and air passengers duties were introduced in 1994/95
- The climate change levy was implemented from 2001/02
- Landfill tax was introduced in 1996/97
- One-off windfall taxes on privatised utility companies were collected in 1997/98 and 1998/99
- The aggregates levy was introduced in April 2002.

At regional/local level:

- The Community Charge (or Poll Tax) was introduced in April 1990, and was replaced by the Council Tax from 1993.

As data on average community charge per dwelling for 1990/01 and 1991/92 is not available, the 1992/93 figure on average community charge per dwelling was used in the these two earlier financial years. As data on council taxes for the 1994/95-1997/98 period is not available either, the 1993/94 figure was assumed to be the same for these financial years.

- The new rating system of non-domestic rates for businesses premises or uniform business rates was introduced in April 1990.

In this new system, business rates were set nationally according to a fixed formula[59]. Figures on business rates are available for the 1990/91-2001/02 period, except for 1991/92. In this financial year, the revenues have been estimated using the same figures as in 1990/91. Figures for 2002/03 have not been published yet so it was assumed to be the same figure as in 2001/02.

The allocation of UK taxes to London is done using London's share of various factors including household consumption, output and population as appropriate. For instance, to allocate corporation taxes it needs to be considered where profits have been generated. The most obvious mechanism is to allocate them using output (or gross value added) on residence or workplace basis. For value added tax and customs and excise duties, the most appropriate mechanism is to allocate them in line with household consumption.

Data on London consumption from 1994 to 1999 is available, so to allocate VAT receipts to London during the period 1989/90-1993/94, London's share of total UK consumption for 1994 was used. From 2000/01 onwards, the same share of UK consumption as in 1999 was used.

Figure D2 shows that tax receipts in London have also more than doubled between 1989/90 and 2002/03 (on both a residence and a workplace basis). Tax receipts in the capital show a clear cyclical pattern. When the London economy was in recession during the early 1990s, taxes hardly increased. Equally, in the more recent slowdown, tax receipts have been flat. Conversely, tax receipts surged during the period 1992/93-2000/01 when the economy experienced sustained growth.

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Abbreviations

CoL	Corporation of London
DTI	Department of Trade and Industry
EBS	Experian Business Strategies
FDI	Foreign direct investment
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Valued Added
HESA	Higher Education Statistics Agency
LFS	Labour Force Survey
ODPM	Office of the Deputy Prime Minister
OECD	Organisation for Economic Co-operation and Development
OEF	Oxford Economic Forecasting
ONS	Office for National Statistics
PESA	Public Expenditure Statistical Analysis
PSNB	Public Sector Net Borrowing
SIC	Standard Industrial Classification
UK	United Kingdom

Footnotes

1 Dixon, 2003, Migration within Britain for job reasons, Labour Market Trends, April; Donovan et al, 2002, Geographical Mobility, Performance and Innovation Unit analytical paper, July

2 Boheim and Taylor, 2000, From the dark end of the street to the bright side of the road?, Institute for Social and Economic Research, University of Essex

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6 The LFS does however show much lower numbers of migrants into and out of London. This is not just because the figures in Table 2.1 are restricted to people of working age who are not full-time students.

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20 The Department of Culture, Media and Sport's definition of Creative Industries is based on 4 digit SIC codes. The definition used here, based on 3 digit SIC codes, is intended to 'best fit' that definition. The following SICs are included as Creative Industries; 221, 223, 722, 742, 744, 921, 922, 923, and 924.

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28 Simmie et al, 2005, Realising the Full Economic Potential of London and the Core Cities. The English Core Cities are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.

29 This section is based on research undertaken for GLA Economics by Experian Business Strategies.

30 A T Flegg and C D Webber, 1995, On the appropriate Use of Location Quotients in Generating Regional Input-Output Tables Regional Studies, Vol. 29, pp547

31 Simple location quotients are defined as the ratio between the regional and national proportions of employment for a particular industry.

32 Cross-location quotients for sectors i and j are defined as: (Regional Employment in sector i/National employment in i) divided by (Regional employment

in sector j/National employment in j)

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commissioned from the Centre for the Study of Financial Innovation

52 See, for example, analysis by the LSE in the Corporation of London's report, London's place in the UK economy for 2002 to 2004 or GLA Economics' Calculating London's tax export, GLA Economics Working Paper 6 (2004).

53 Appendix B provides an explanation of the data used to carry out this analysis.

54 As part of this analysis, new data for the years 2000/01 and 2001/02 has been considered. This new data results in new estimates of London's tax export for these years compared to the estimates published in GLA Economics' previous Working Paper. However as Appendix C shows, the differences between the new and old estimates are small.

55 GLA Economics, 2004, Calculating London's tax export, GLA Economics Working Paper 6

56 Only part of total UK public expenditure is classified as 'identifiable expenditure' and allocated to a particular UK region or country. Other non-identifiable expenditure thus has to be allocated to particular UK regions or countries using certain assumptions.

57 Table 8.17 in PESA 2004 presents regional analysis of pay cost components of departments' non-identifiable spending in 2002/03.

58 London School of Economics and Political Science, November 2004, London's Place in the UK Economy 2004, Corporation of London

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Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυ-δρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

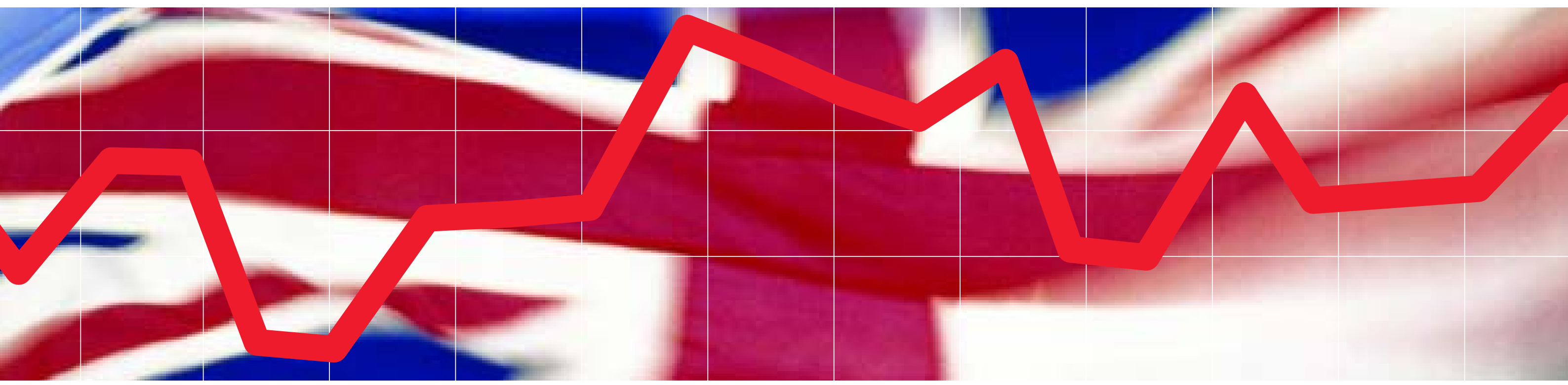
اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاھتے ھیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

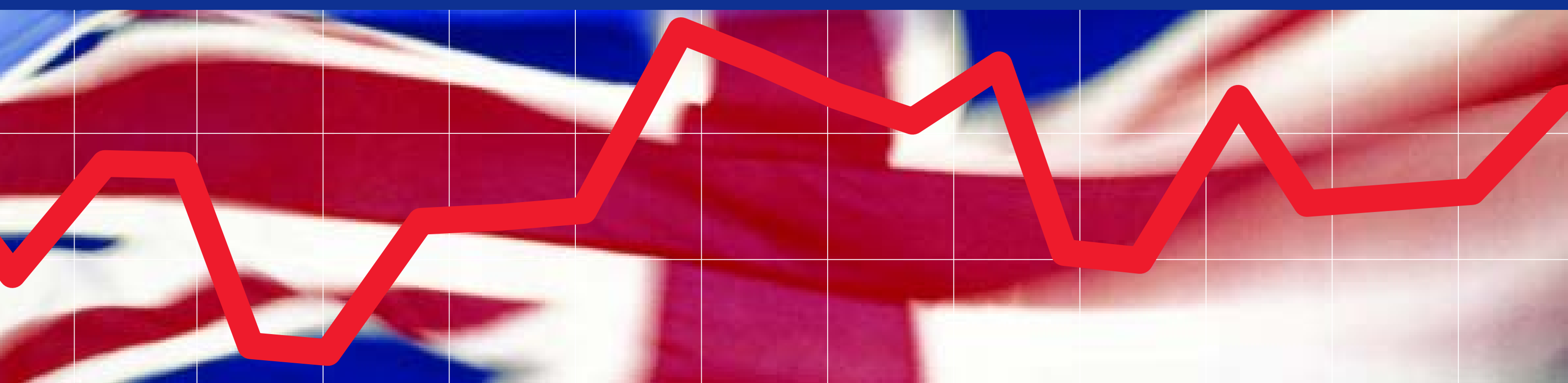
Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.





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