GLAECONOMICS

Economic Evidence Base – Summary version

to support the London Plan, the Transport Strategy and the Economic Development Strategy

Transport for London

LONDON DEVELOPMENT AGENCY

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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 form 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 (GLA), Transport for London (TfL) and the London Development Agency (LDA).

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Introduction

This document provides a summary of the economic evidence base developed to support the London Plan, Transport Strategy and Economic Development Strategy. It seeks to provide a brief summary of the main economic forces impacting on London as a context to the key economic and socio-economic issues facing the city. By doing so, the hope is that this evidence base will result in better strategies and ultimately more effective interventions. The more comprehensive evidence base can be found at: http://www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/economic-evidence-base-may-2010

Chapter 1 of this summary considers the economic forces that have driven London's current industrial structure. Chapter 2 looks at the spatial implications of London's economic activities and the impact on surrounding areas. Chapter 3 illustrates the factors that attract businesses and people to London. Chapter 4 looks at the outlook for London's economic growth and employment in the longer term. Chapters 5 through 7 look at some of the risks to London's future prosperity. Chapter 5 looks at the issue of climate change. Chapter 6 considers some of the risks to London's attractiveness to both businesses and people. Chapter 7 sets out some of the main socio-economic issues facing London – particularly worklessness, child poverty and the educational attainment of young Londoners. Appendix 1 concludes by considering the most effective way in which public sector bodies might respond to this information.

Chapter 1: Trade and London's economic specialisation

Growth in an economy's income per head depends very much on the ability to raise productivity, i.e., the economy's ability to produce more for a given level of resource. Openness to trade – both exports and imports – strengthens productivity. Indeed, both economic theory and evidence show that economies which trade more tend to grow faster[1].

One way trade encourages greater productivity is through the exploitation of economies of scale. At its most basic, trade increases the size of markets to which producers can sell. This is important because the bigger the market, the more businesses and firms can take advantage of economies of scale and so operate at a more efficient size, producing goods and services at lower cost.

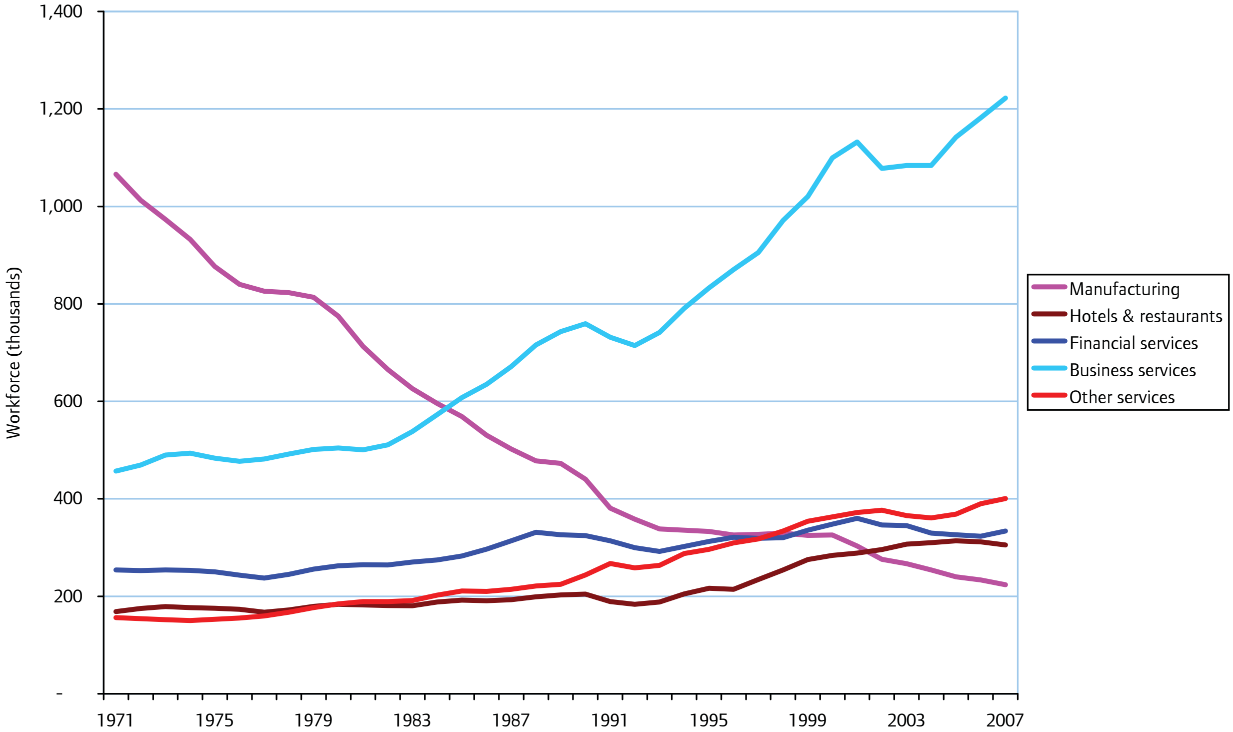
Openness to trade can also increase productivity by allowing different countries and/or regions to concentrate on different areas of production, focusing on their respective comparative advantage[2]. Comparative advantage relates to the cost of producing one good relative to the cost of producing another good and implies that 'absolute advantage', i.e., differences in absolute costs, are not necessarily critical. The implication is that areas – like individual elements within the labour force – should concentrate on what they do best. This means that various types of industrial or business activity are economically viable in developed countries and cities with relatively high costs in spite of the fact that land and labour may be cheaper in many emerging economies such as India and China. Sometimes these geographic specialisations experience a degree of 'lock-in' whereby historical or institutional factors which reflect past trade patterns produce agglomerations of activity which become ingrained even though the original economic motive for the location may be no more.

Openness to trade increases the returns to innovation, itself a driver of growth and productivity, on account of increased market size and also enables the economy to benefit from access to new technology (by importing new technology from other places). Perhaps most importantly, openness to trade brings greater competition which encourages firms to be as efficient as possible.

Structural change and specialisation

This drive to higher productivity through competition, innovation and openness to trade has contributed to structural change in the UK economy (as elsewhere in the world), encouraging domestic resources to shift from less productive to more productive uses. As a result of such economic forces over the past three decades or so, London has seen a significant shift away from manufacturing towards services. This is shown in Figure 1.1 which shows that manufacturing employment in London fell from over 1 million jobs in 1971 to around 225,000 jobs in 2007. In contrast, employment in the broad category of business services increased from under ½ million in 1971 to over 1.2 million in 2007. Over the same period there have also been increases in employment in hotels and restaurants, other services and, to a lesser extent, financial services.

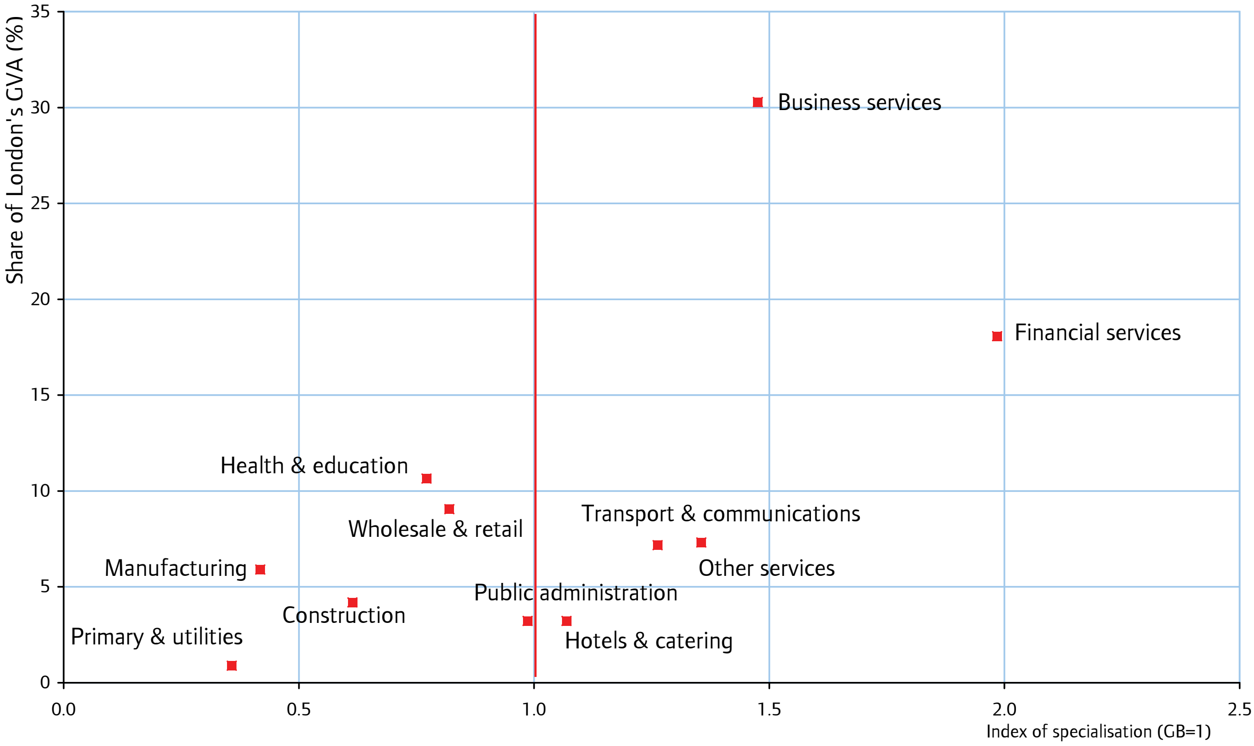
Figure 1.1: Employment in London by sector over time



Source: Experian Economics

Figure 1.2 looks in more detail at the current industrial structure of London's economy. The chart shows that economic activity in London is concentrated in financial services, businesses services and – to a lesser extent – other services and transport and communications.

Figure 1.2: London's broad sectors: Index of Specialisation[3] (relative to Great Britain) and share of London's total output (2008)



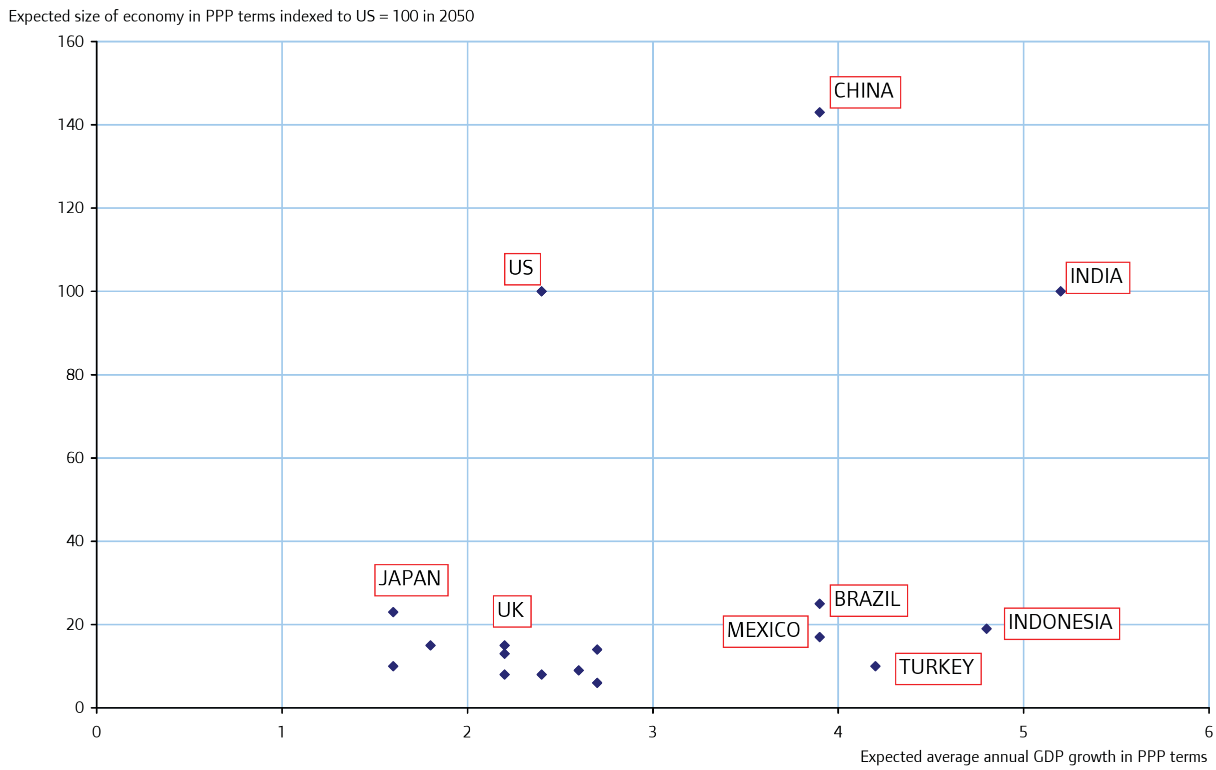
Source: Annual Business Inquiry – ONS Crown Copyright; UK Regional Accounts – ONS Crown Copyright

These broad sector headings hide a range of different economic activity and differing degrees of specialisation within particular sectors. When examined at a more disaggregated level, London specialises in such things as securities broking/fund management, media activities – London is strong on 'cultural services' – and advertising. Its employment is not concentrated on sectors such as manufacturing, primary industries and freight transport.

As a result of London's specialisations, it has strong international trading links. Indeed, GLA Economics estimates that London's total exports of goods and services totalled £66.4bn in 2008 with London accounting for one third of all UK exports of services. London's main exports of services are fund management and securities broking, monetary finance as well as business and leisure tourism (personal travel and air transport)[4].

Over the last two decades far higher rates of annual output growth have been achieved in China and India than in the developed economies of North America, the European Union or Japan. This rapid growth is expected to continue – not just in China and India – but in other emerging economies such as Brazil, Russia, Indonesia, Turkey and Mexico. By 2050, China is expected to be the largest economy in the world and – at least in purchasing power terms – India will also be a similar size to the United States. These three economies are expected to be far larger than any others as shown by the relative positions on the vertical scale in Figure 1.3. When examined in per capita terms, China and India will remain relatively undeveloped even by 2050 with the UK, Japan and the US still expected to have far higher per capita incomes. The fact that per capita incomes in China and India will remain relatively low could limit demand for service imports. Nevertheless, the sheer scale, and growth, of these economies mean they become increasingly important global markets.

Figure 1.3: Expected size of global economies by 2050 and their expected average annual GDP growth

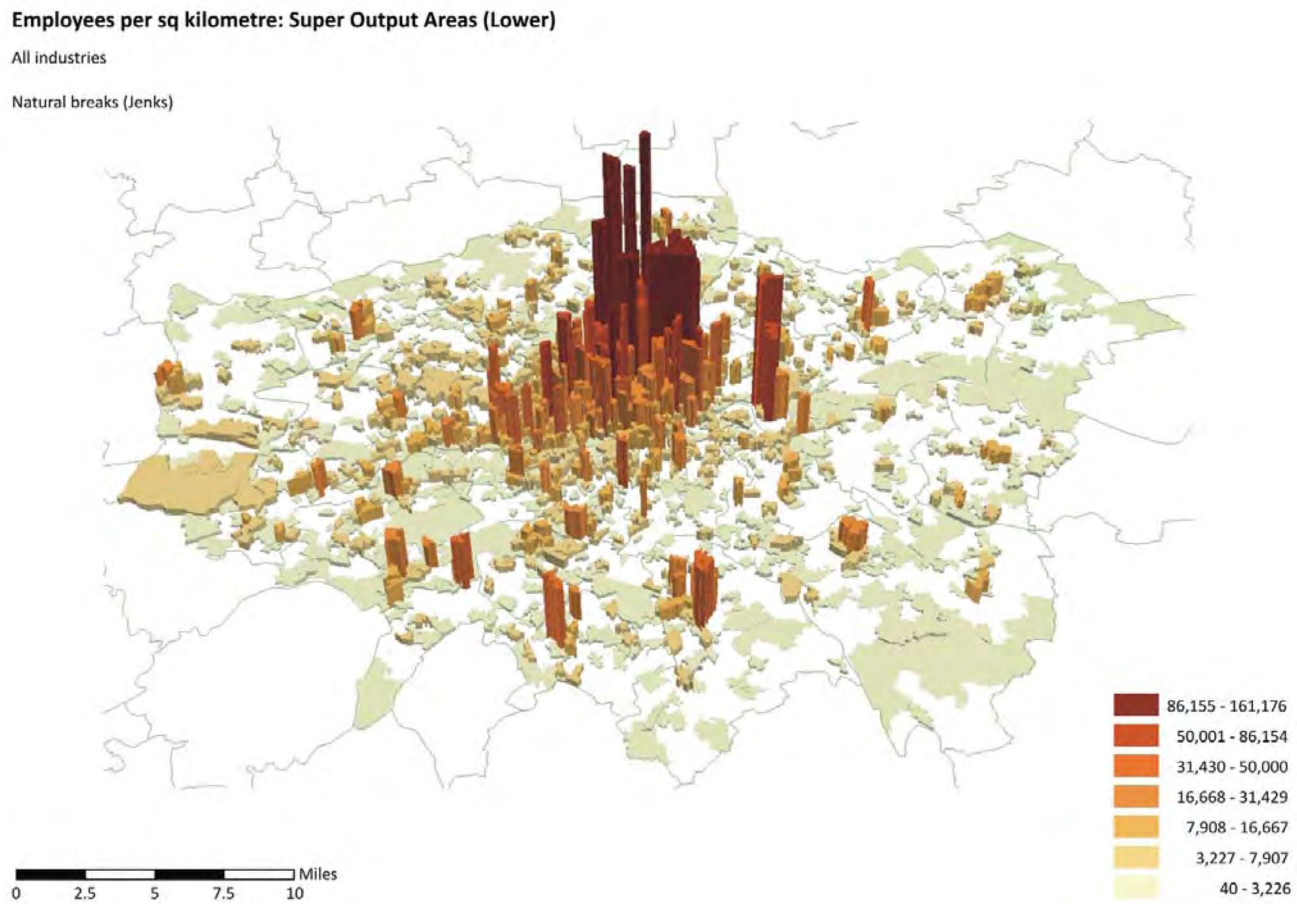


Source: PriceWaterhouseCoopers for the United Nations (2008)

Chapter 2: The spatial nature of London's economy

The spatial nature of London's economy is the product of more than a century of trade and agglomeration at work. The trade of goods and services is the driving force of urbanisation. Cities are able to grow by taking advantage of trade and over time some specialise in the production of particular goods or services. Cities also benefit from agglomeration economies, basically extra benefits (like a large pool of skilled labour, knowledge spillovers from other firms/workers and access to specialised services) that arise when economic activity takes place in a concentrated space. Figure 2.1 shows that there is a significant concentration of employment in the very centre of London. The proximity of a large number of suppliers and customers in a relatively small area creates economies of scale in input and output markets. Many competing businesses near to one another also leads to more effective competition and puts pressure on all businesses to maximise the efficient use of resources, making them more competitive locally as well as globally.

Figure 2.1: Employment density in London

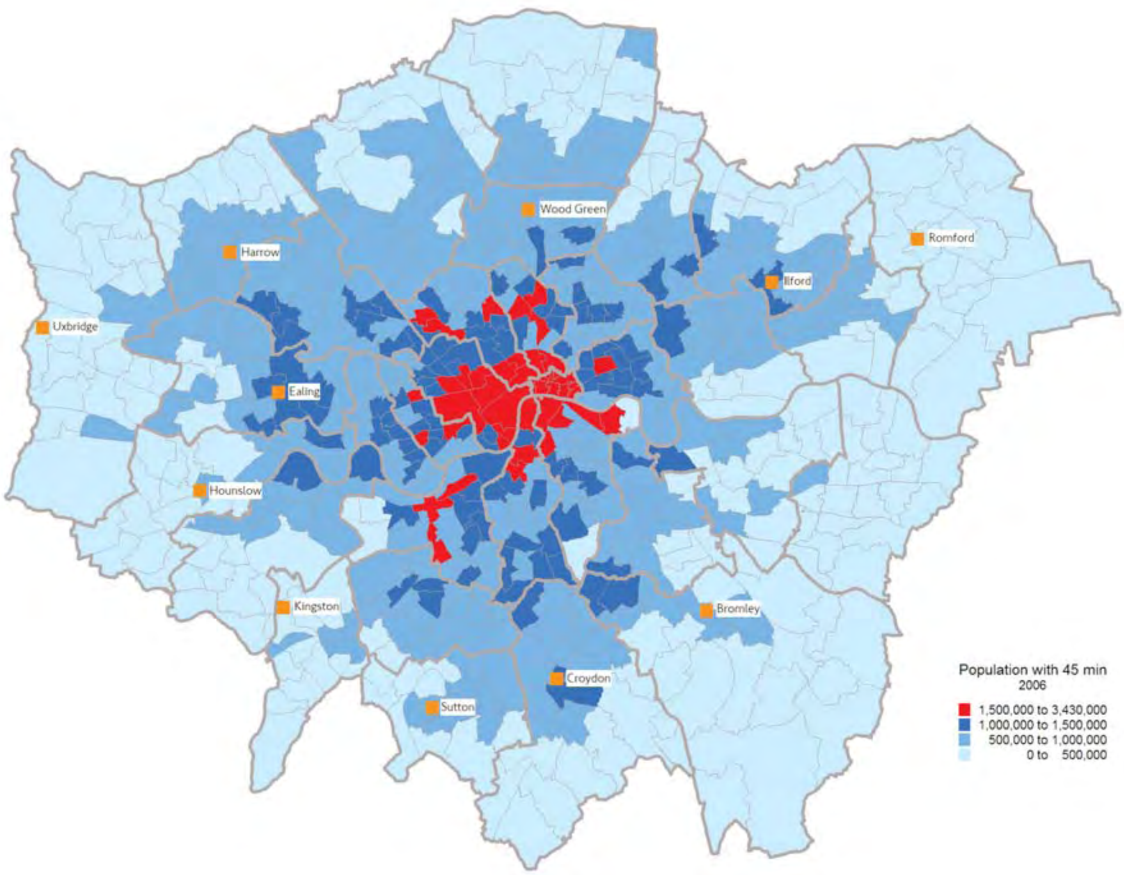


Source: Annual Business Inquiry 2008

When transport infrastructure was rudimentary and costly, businesses could only locate in very specific locations, such as London's central area and the many distinct market towns across the region. But the decline in transport costs over time allowed for the separation of work and residence with a further beneficial concentration of business activity in Central London. As a result, the area that is now Outer London transformed from an agricultural region home to a number of market towns, to the largely suburban area it is today, providing homes for the many people working in the growing city.

Despite the geographic spread of London, Central London remains a prime location for businesses. It lies at the centre of the most populous region in Britain and more than 3 million people can travel by public transport from home to Central London within 45 minutes (see Figure 2.2).

Figure 2.2: Number of residents living within 45 minutes public transport travel time

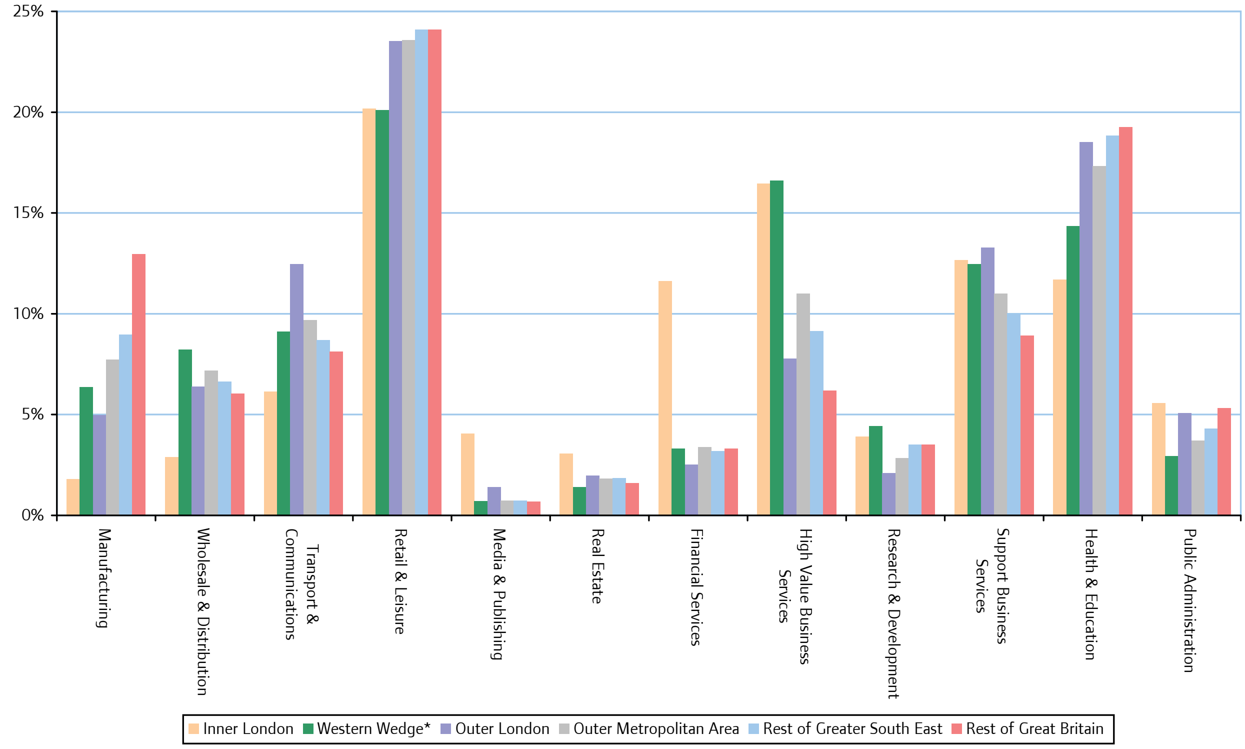


Source: Transport for London, 2009

London's specialised, globally competitive activities tend to locate here, and in fact some locate almost exclusively in Central London because they benefit so greatly from agglomeration economies. Within the business services sector, there are notable concentrations in accountancy, legal, management consulting and advertising in Central London as well as the more creative radio and television, publishing and motion pictures industries.

Economic activity outside Central London tends, on average, to be more widely spread and more supportive of an area's immediate population than in Inner London. To this end, the proportion of jobs associated with serving the population (like retail or health and education, for example) and jobs in what might be referred to as 'support business services' are higher in Outer London than in Inner London (as shown in Figure 2.3).

Figure 2.3: Percentage of employees by category and geography, 2008

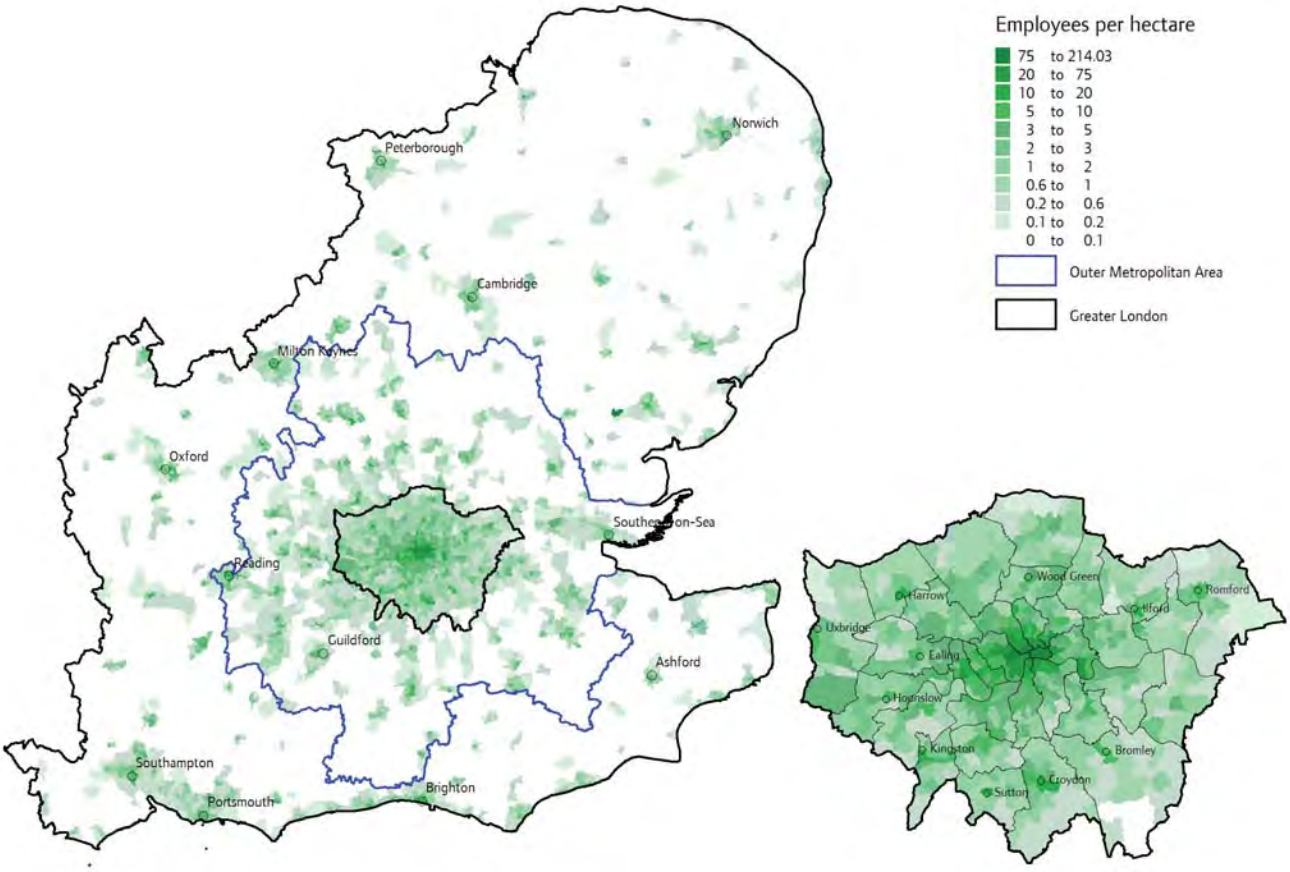


Source: Annual Business Inquiry

** The Western Wedge presented here includes: Wycombe, South Bucks, Bracknell Forest, Reading, Slough, Windsor & Maidenhead, and Wokingham.*

London is the dominant economy within a very large region, the Greater South East (GSE). Within this region is a collection of areas that have especially strong links with London, commonly known as the Outer Metropolitan Area and includes areas directly surrounding Greater London as diverse as Southend-on-Sea, Crawley, and Reading. The Western Wedge, an economic corridor with historical specialisation in information technology, stretches from Central London through Heathrow and into the Thames Valley, is the biggest employment centre within the Outer Metropolitan Area. The area is significantly influenced by Heathrow Airport with the area of the Wedge within London containing much employment integral to the airport's supply chain and logistical network. To the west of Heathrow the Thames Valley has become a key centre of international headquarters. Figure 2.4 illustrates some of the main employment centres in the GSE.

Figure 2.4: Employment density in 2008 in London, the Outer Metropolitan Area and the Greater South East



Source: Annual Business Inquiry 2008

A number of key historic and future trends have and will continue to affect London's economic geography. These include the continuing shift in focus from manufacturing to services, trends in population growth and household formation, and changes in accessibility brought about by new transport investment. The economy in London today would be unrecognisable compared to the one that started on the banks of the Thames many hundreds of years ago. But the economic forces that affect growth in London – trade and agglomeration – remain the same.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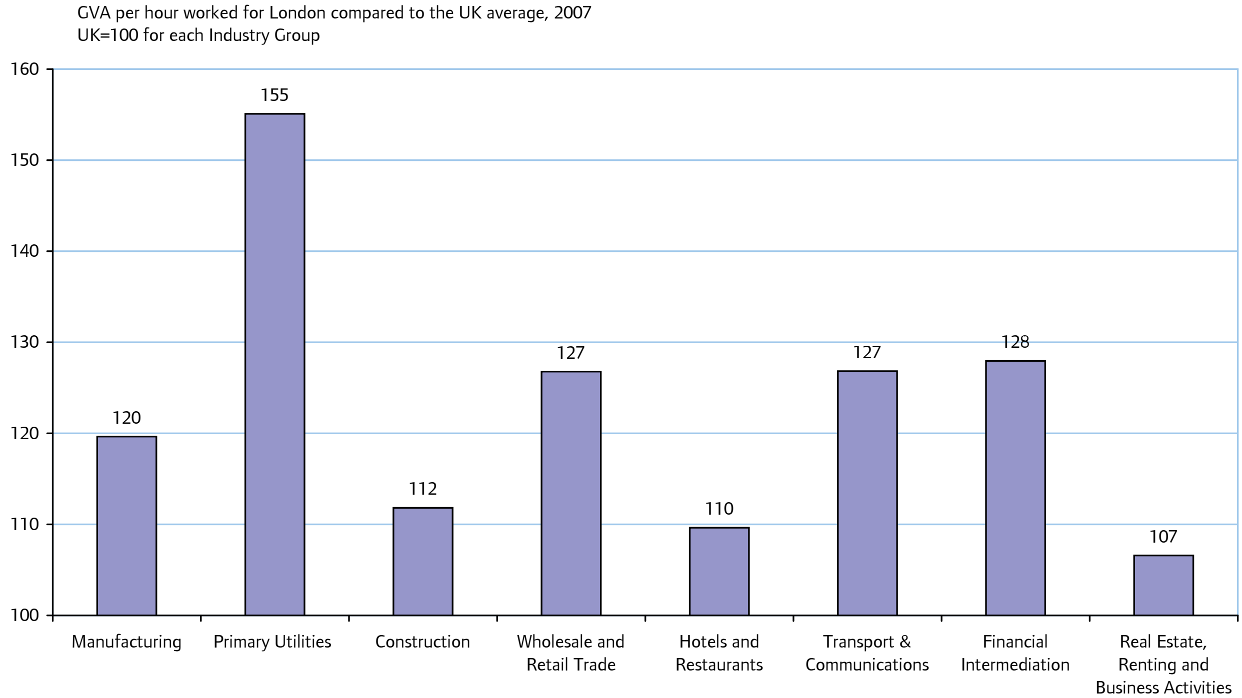
Chapter 3: London's attractiveness to business and people

London has long been recognised as a leading world city by various studies and surveys[5]. In 2008, GaWC (Globalisation and World Cities)[6] found that London was the leading global city, closely followed by New York. Other surveys such as the Global Financial Centres Index[7] consistently ranks London as one of the two leading financial centres in the world, while Cushman and Wakefield[8] consistently ranks London as the most attractive city in Europe in which to locate a business. This position as a global centre plays an important role in sustaining and attracting business and people to the city.

Economic growth and productivity

London's total economic activity (Gross Value Added – GVA) is substantially higher than any other UK region accounting for over 21 per cent of total UK GVA[9]. London's highly skilled labour force contributes to London being over 30 per cent more productive than the rest of the UK. As shown in Figure 3.1, GVA per hour worked in London is well above the UK level across almost all sectors of the economy.

Figure 3.1: London's productivity in comparison to the UK average, 2007



Source: Regional Accounts and Employee Jobs (ONS Crown Copyright)

Factors attracting business to London

The main factors that have been found to attract businesses to London include: the availability of high quality staff; a favourable business environment (including taxes and regulation); access to markets; a favourable time zone; pre-eminence of the English language; internal and external transport links[10]. Table 3.1 provides a clear summary of the factors that business leaders state as driving their decisions about business location and illustrates London's dominance as a leader, at least in terms of European cities.

Table 3.1: Attractiveness of London to business

	2009	2008	2007	2006	2005	2009 Leader
Availability of qualified staff	1	1	1	1	1	London
Easy access to markets	1	1	1	1	1	London
Quality of telecommunications	1	1	1	1	1	London
External transport links	1	1	1	1	1	London
Cost of staff	28	29	25	16	22	Warsaw
Climate for doing business	4	5	2	5	6	Dublin
Language spoken	1	1	1	1	1	London
Office space - value for money	23	24	18	29	24	Leeds
Internal transport	1	1	1	1	2	London
Availability of office space	2	5	2	1	3	Berlin
Quality of life	11	14	11	7	13	Barcelona
Freedom from pollution	29	27	29	26	27	Oslo

Source: European Cities Monitor, Cushman & Wakefield (2005-2009)

London's attractiveness to people

The Booz and Co report[11] found that people are attracted to London because it is seen as a great place to live, it is open and attractive to international communities and it is home to world leading educational opportunities. For highly skilled people London was found to be attractive as it: offers good career opportunities and higher wages; has one of the most diverse populations of any international city; it has a significant cultural and entertainment offer; and is a relatively green city in terms of green space.

Chapter 4: The outlook for economic growth

As noted earlier, the dynamic impact of agglomeration effects and the deepening globalisation of trade, amongst other factors, have led to London currently focusing on service activities, particularly financial, business and cultural services.

As a result of the financial crisis and the likely future measures needed to mitigate the impact of any future crises, the financial services sector is likely to face a period of readjustment and structural change. A failure of financial market regulation has been partly blamed for the crisis; in response the Financial Services Authority (FSA) plans, and has begun to introduce, a more invasive, judgment-based form of regulation compared to the 'light touch' form of regulation it previously employed. Other regulatory responses at both the national and international level are also likely. Given the UK's (and hence London's) leading role in a number of financial sectors, all this could impact negatively on London's economy.

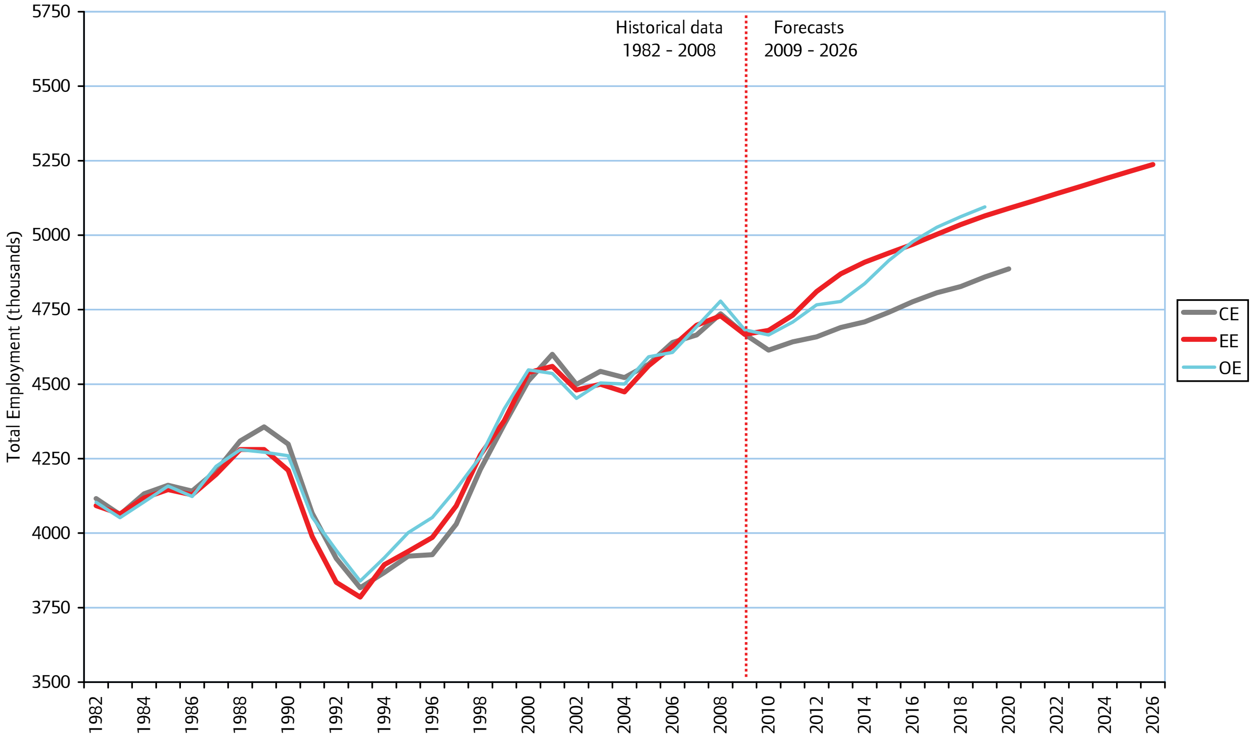
However, the scale of any impact on London's economy can be overstated. Whilst the financial turmoil particularly impacted on the banking sector, other areas of the financial services sector such as those dealing with marine insurance, equities or exchange rates for example have been less directly impacted. So although some structural change is likely in financial services, especially in banking, many sectors are unlikely to be directly affected and are likely to continue in a similar form as present. Indeed, even those sectors that are more directly affected – like securitisation for instance – are likely to continue in some form, albeit in a likely reduced and more tightly regulated form. Nevertheless, opportunities for rapid growth in the financial services sector might well be curtailed in the future and this would impact other sectors of the economy through the trade linkages between the financial services sector and other parts of London's economy.

As noted earlier, however, there are a number of sectors other than just financial services in which there is significant activity in London. These include higher and business education, tourism, creative industries and legal services to name a few.

Preliminary estimates from Experian Economics indicate that London's GVA declined by almost 6 per cent through the course of the recession[12]. Given the size of this downturn the concurrent drop in employment in both London and the UK as a whole has been moderate and less than expected by many forecasters especially in light of the falls in employment seen in the recessions of the early 1980s and 1990s. This could mean that any recovery in employment after the recession may be more muted than expected as employers utilised the spare productive capacity implied by these figures.

Nevertheless, following a contraction in employment due to the current recession forecasters expect London's employment level to continue to grow over the longer term (see Figure 4.1). All forecasts assume that by 2015, at the latest, employment will have recovered to the level observed before the recession (2008).

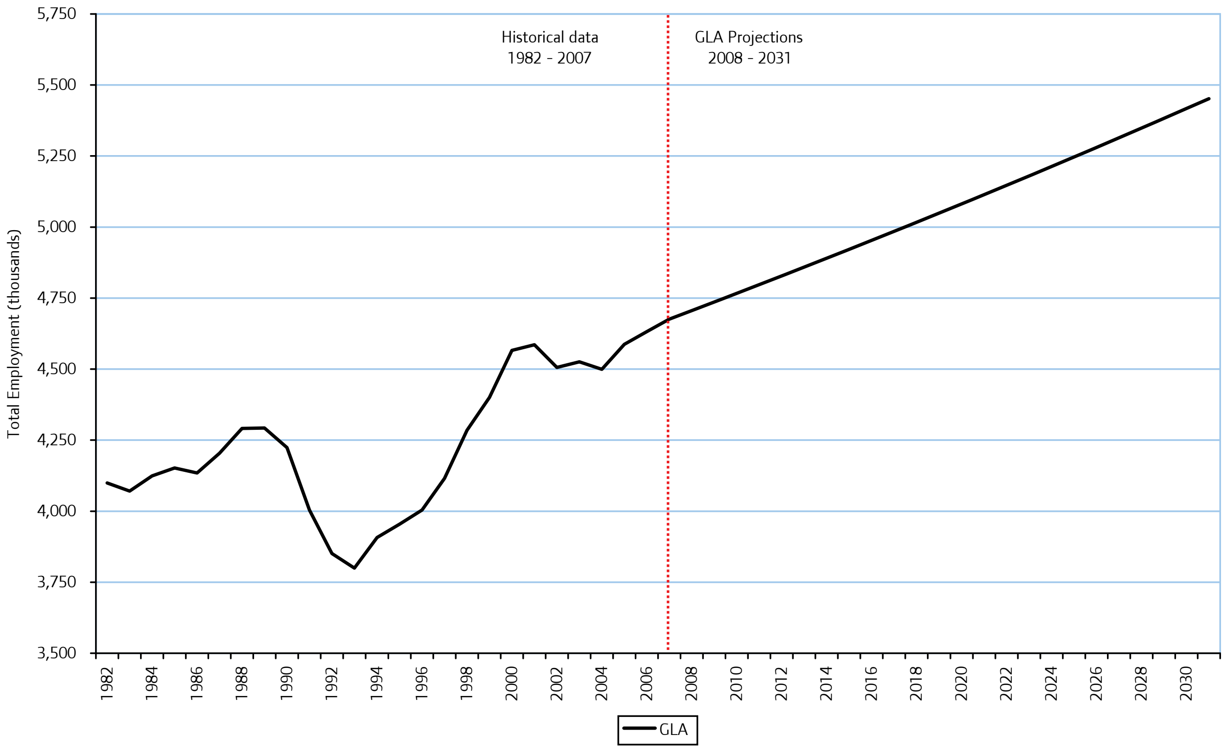
Figure 4.1: Employment forecasts for London by various forecasters to 2026



Source: Cambridge Econometrics, Experian Economics, Oxford Economics

Figure 4.2 shows the GLA's long-run employment projection. This long-run projection, which is used for planning purposes by the GLA Group, abstracts from short-term fluctuations (and so is different to the independent forecasts included in Figure 4.1 in that it does not forecast for short-term fluctuations in the macroeconomy) and sees employment in London growing to 5.45 million by 2031, an increase of about ¾ million from 2007 levels[13].

Figure 4.2: The GLA's long-run employment projection to 2031



Source: GLA Economics Working Paper 38

This employment growth is projected to be driven primarily by the business services sector. Other sectors projected to experience significant growth over the next two decades or so are other services (which includes areas such as media, recreation and leisure for example) and hotels and restaurants. More modest employment growth is projected to be experienced by financial services, retail, and health and education. All other sectors are forecast to lose employment with particularly significant falls in employment in manufacturing.

Chapter 5: Risks and opportunities from climate change

London faces a number of challenges if it is to maintain its position as a leading global centre over the next 20 years. One such challenge is climate change.

Climate change represents a significant market failure – greenhouse gas emissions have been higher than would have been socially optimal. Although some degree of climate change is now inevitable, unless greenhouse gas emissions are reduced significantly, more dramatic changes to our climate may become unavoidable with significant economic and social costs.

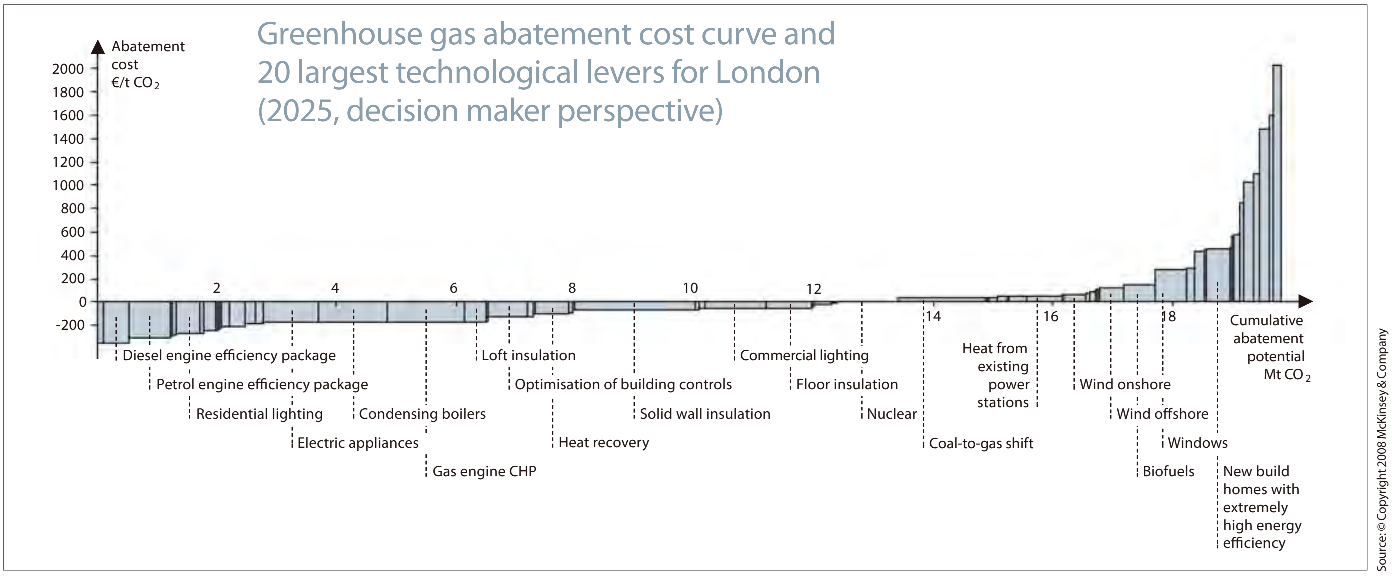
The fact that carbon emissions have been higher than would have been socially optimal is a result of the price of carbon (and greenhouse gases in general) being too low or not being included in the production of goods and services in the past. Establishing a price for carbon that reflects the full social cost of the production and consumption of carbon – which in turn will motivate individuals and businesses to switch away from high carbon products and services to low carbon alternatives – is important. This means that the most pressing issue is for the international community to set a firm, binding target to limit the global average temperature rise resulting from climate change to 2 degrees Celsius. However, there are a number of serious problems associated with internalising the cost of climate change within the price mechanism. For example, any international agreements need to take into account all countries as well as future generations.

In spite of these difficulties, it is now widely anticipated that carbon and energy prices will be higher in the future. As a consequence, goods and services – particularly those involving high energy inputs – will become more expensive, other things being equal. Economic activity needs to become more carbon efficient and there are likely to be economic opportunities in this transition.

London's Climate Change Action Plan sets a challenging target of reducing the capital's emissions of greenhouse gases by 60 per cent on 1990 levels by 2025. In reducing the carbon intensity of economic activity, it makes both economic and environmental sense to concentrate on levers that deliver large reductions in carbon emissions at least cost (or even better with savings).

Using all the technological levers identified in a recent report by the consultants, McKinsey & Co., London could deliver a 43.7 per cent cut in carbon emissions (around 21 Mt CO2). As shown in Figure 5.1 around 12 Mt of this can be delivered whilst also making net savings over the period, although there may still be motivational and institutional obstacles to achieving this. Sometimes existing technologies tend to be overlooked in favour of more dramatic or appealing technologies which will not only achieve what is required less efficiently but which may also create implementation barriers on account of the fact that agents may perceive them as carrying greater levels of risk. Going beyond the 43.7 per cent reduction cannot be achieved by the identified drivers without some extra combination of regulation, behavioural and lifestyle changes.

Figure 5.1: Greenhouse gases abatement cost curve for London – 2025 decision-maker perspective on 20 largest technological levers



Source: McKinsey & Co. (2008[14])

Opportunities in London extend to potentially positive impacts on output and jobs. Unlocking the low carbon economy in London could drive growth in the market worth £3.8 billion per annum. In this perspective, the Mayor's own carbon mitigation programme around retrofitting, converting waste to energy and decentralised energy is relatively small but could act as a stepping stone in London's journey towards the greater economic prize and its mitigation of climate change.

Given that some degree of climate change is now inevitable, London also needs to adapt to increased risks from flooding, drought and overheating.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Chapter 6: Risks to London's attractiveness to business and people

To some extent the challenges London faces are a result of its success in attracting both businesses and people. For example, more people and businesses in the city tend to place a strain on public amenities, leads to higher demand and congestion which tends to drive up prices for goods and services.

The challenges London faces, like congestion and higher costs for example, are common to all global cities. However, it is important that factors that could reduce the attractiveness of London to businesses and people, such as changes to tax or regulatory policy, or reductions in the quality of life for example, are managed as effectively as possible.

Risks to London's business environment

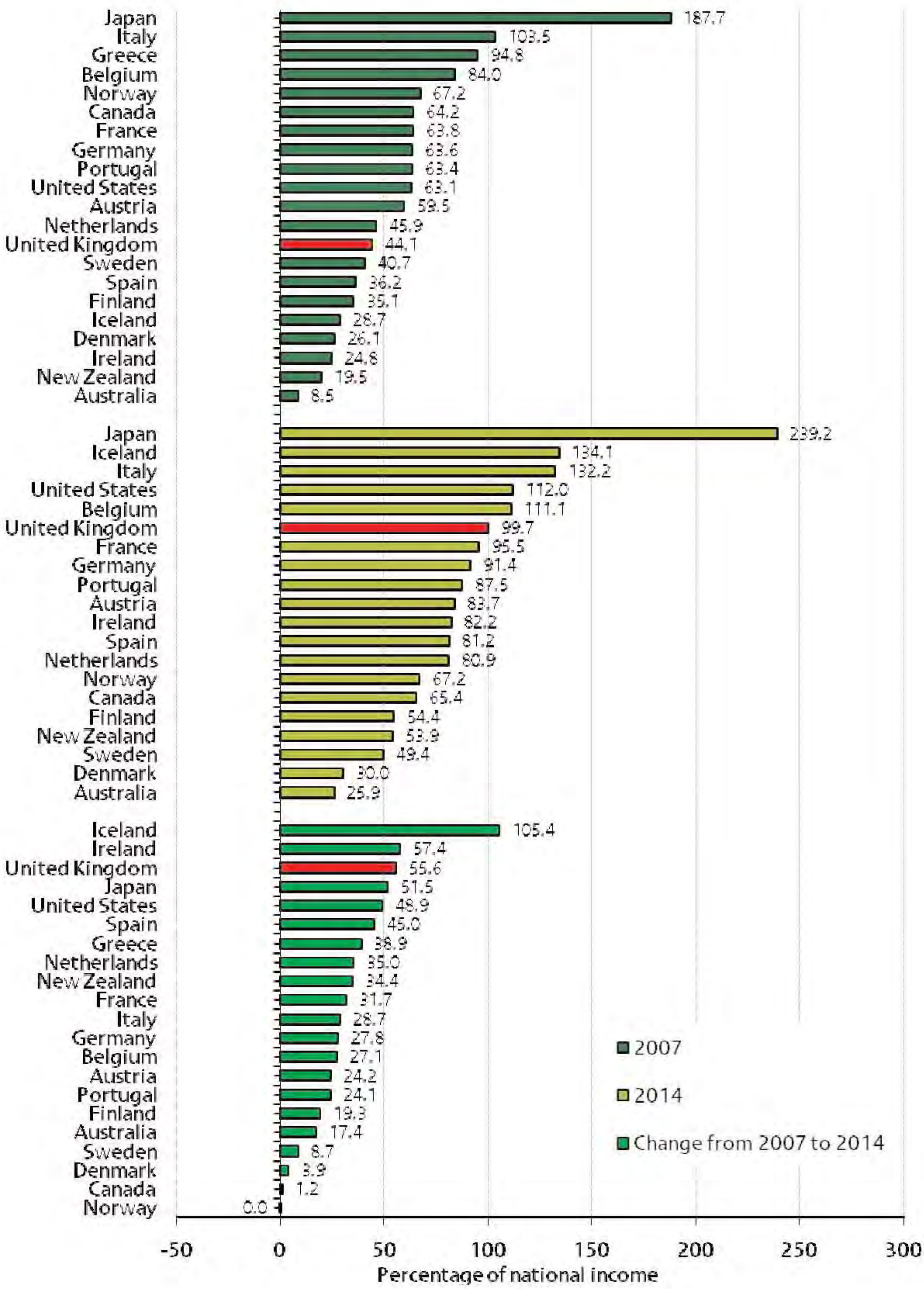
Public finances, taxation and public investment

A number of recent reviews of both London and the UK business environment have noted concerns about trends in tax policy and regulation, and the implications for the international competitiveness of London's business environment[15]. The primary concern is that greater uncertainty surrounding changes to taxation arrangements in the UK as well as the introduction of more regulation of businesses reduces the attractiveness of London relative to other cities.

The impact on public finances from the current economic downturn and the assistance package to the UK financial sector could also have a detrimental impact on the international competitiveness of the UK's tax position.

As a result of the projected government borrowing, the IMF expects the UK's fiscal position (in terms of net debt) to worsen to a greater degree than most other developed countries between 2007 and 2014 (as shown in Figure 6.1). This will put the UK and London in a relatively worse position with regards to its tax competitiveness when compared to the situation before the downturn[16].

Figure 6.1: IMF forecasts for general government debt among industrial countries



Source: International Monetary Fund, World Economic Outlook database (April 2009), and M. Horton, M. Kumar, and P. Mauro, The State of Public Finances: A Cross-Country Fiscal Monitor, July 30th 2009, Washington: International Monetary Fund

This rapid deterioration in public finances strongly suggests that a mix of tax increases and spending/investment cuts will be necessary to, at least, stabilise the level of public debt (as a proportion of GDP). This will also be necessary if the UK is to avoid a deterioration in the standing of its public debt in the international financial markets. Without a clear plan for addressing the fiscal problems currently faced, financial markets may become concerned about the UK's ability to service its debt. Such concerns could manifest themselves in a downgrading of UK debt which would put upward pressure on the UK's long-term interest rates – putting a further strain on public finances and acting to subdue economic activity in the rest of the economy.

Migrant labour

One of London's most attractive features for business is the depth of its highly skilled labour market. Currently, over 40 per cent of those working in London hold a degree level qualification, and the demand for people with such skills is forecast to increase. In London 20 per cent of employed workers with a degree are non-UK nationals (almost two-thirds of which are non-EU nationals).

The UK has traditionally maintained a relatively open door policy towards international migrant workers, particularly in comparison to other EU countries. However, more recently, the UK has introduced a points based system for those wishing to emigrate from non-EU member states. The UK also decided to toughen up the existing resident labour market test for employers and tighten the criteria for highly skilled migrants by raising the qualifications and salary level needed to enter the UK. In addition, the UK has also changed tax arrangements for the treatment of resident non-domiciles[17]. At the same time, personal income tax rates for high income earners are increasing, and the international competitiveness of wages is falling due to the fall in the pound.

These changes appear to fall on a small but significant proportion of London's highly skilled workforce and the impact of such changes is difficult to measure. However, the change in attitude (if only perceived rather than actual) and less favourable economic conditions (for example the falling value of Sterling and the increase in personal tax rates) could well encourage some of the more highly skilled and productive migrants to either stay in their home country or select other countries as their preferred destination.

Transport issues

Transport congestion, crowding and delays are consistently identified as a concern for London residents and businesses[18]. A certain amount of congestion can be expected in a large city as, like higher land prices, it is evidence of higher demand and significant economic activity and shows that major investments are used very intensively[19]. However, London suffers from significant crowding problems, both on its roads and its public transport network.

Much has been done recently to improve London's transport system after several decades of underfunding. But whilst these improvements will relieve crowding, beyond 2018, if further measures are not taken, then crowding would increase again (as a result of the growth in demand resulting from more population and jobs).

In addition to concerns about the state of London's internal transport infrastructure, business groups have also raised concerns about the quality of the UK's international transport links[20]. In particular, concerns have been raised about the quality of Heathrow.

Risks to London's attractiveness to people

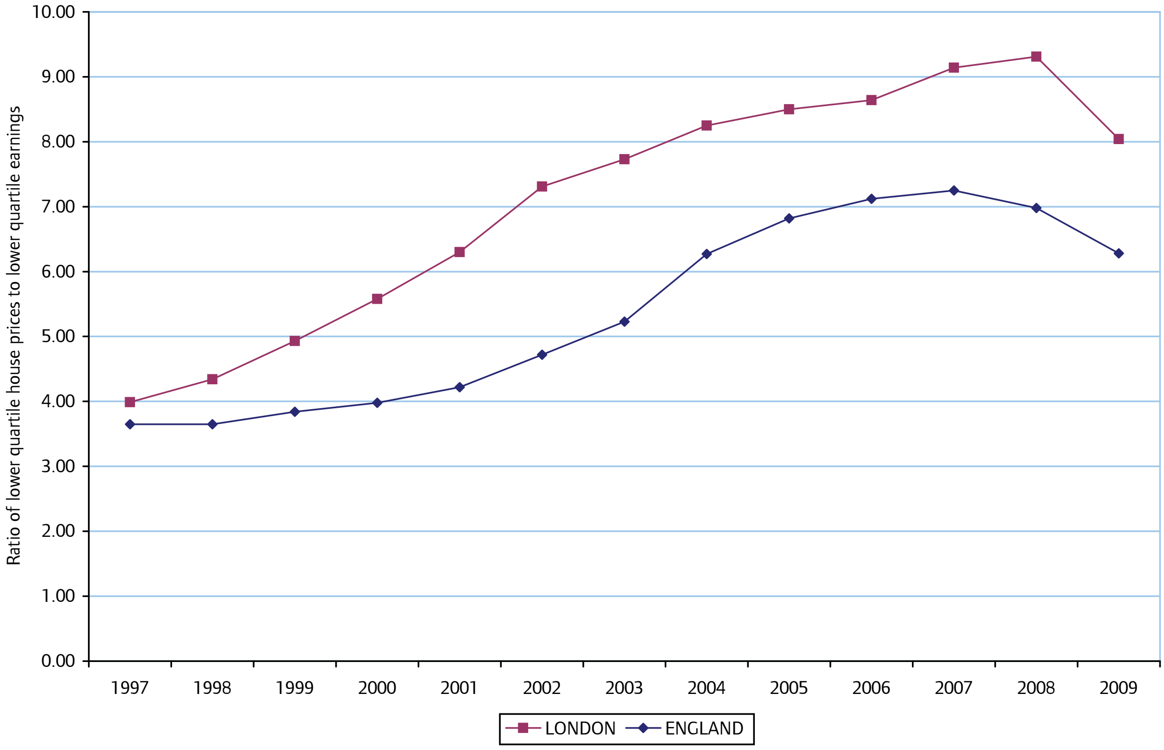
Cost of living

As noted previously, global cities tend to suffer from congestion and the negative consequences it has on the quality of life of residents. For example, higher demand for housing drives up land values, which feeds through to many other living costs (for example, business rental costs also increase, which can drive up prices for their products as they aim to recover this cost). In addition, higher demand for travel to Central London increases crowding and congestion to which investment and other policies have to respond.

Surveys and international comparisons regarding liveability tend to bear this out. For example, in the 2009 Mercer Quality of Living Survey London was ranked 38th while the other recognised global cities; New York, Paris and Tokyo, were ranked 49th, 33rd and 35th respectively for their liveability[21].

London is an expensive city to live in. Many comparisons rate London as one of the most expensive cities in the world[22]. One of the most challenging obstacles to living in London, in terms of cost, is the ability to buy a house. Figure 6.2 shows that the ratio of lower quartile house prices to lower quartile earnings has increased from 4.0 in 1997 to 8.0 in 2009[23]. Although the economic downturn has put some downward pressure on house prices (as shown in Figure 6.2), in the longer term house prices in London are likely to continue to grow.

Figure 6.2: Affordability of housing over time (ratio of lower quartile house prices to lower quarter earnings)



Source: CLG, Live tables on housing market and house prices, Table 576

Environment

London relies on high quality labour viewing it as an attractive place in which to live and work. High quality and creative individuals feel attracted to places where there are concentrations of other talented individuals but they also value a pleasant aesthetic environment and a beautiful physical setting[24]. A study by BAK Basel found London to perform well on economic and societal variables but far less well on environmental factors when compared to other European cities such as Stockholm[25]. Perceptions of poor air quality, long commuting times, heavy traffic and London's rainy climate were singled out as issues.

Crime

In the 2009 Annual London Survey over a third of respondents highlighted safety and policing as the worst thing about living in London (the largest single category)[26]. It is important for London's ongoing attractiveness that residents feel safe both when in their homes and in public places.

Chapter 7: Socio-economic issues

London has a polarised income distribution. As well as containing a high share of the UK's most prosperous individuals, it is also home to a high share of the UK's poorest individuals. After housing costs, 28 per cent of Londoners are ranked in the top quintile nationally, whilst 25 per cent are ranked in the bottom quintile.

In terms of explaining why London has such a large number of individuals towards the bottom of the UK income distribution, the first thing to note is that this is only the case when measured net of housing costs. In other words, the level of incomes received via wages or benefits towards the bottom of the income scale are no worse in London than elsewhere in the UK. However, the high cost of housing in London means that once housing costs have been deducted, 25 per cent of Londoners are amongst the 20 per cent of UK residents with the lowest incomes net of housing costs. As shown in the previous Chapter, house prices in London have become increasingly expensive over time (see Figure 6.2).

High house prices across London, together with relatively low incomes for a significant proportion of Londoners[27], mean that there will continue to be a large number of London residents who therefore require assistance to finance their housing requirements whether this be through social housing, or housing benefits to pay towards private sector rents.

Another reason why London has a significant number of its population towards the bottom of the income distribution is that it has a higher level of worklessness amongst working age adults than the rest of the UK. This is particularly true amongst females.

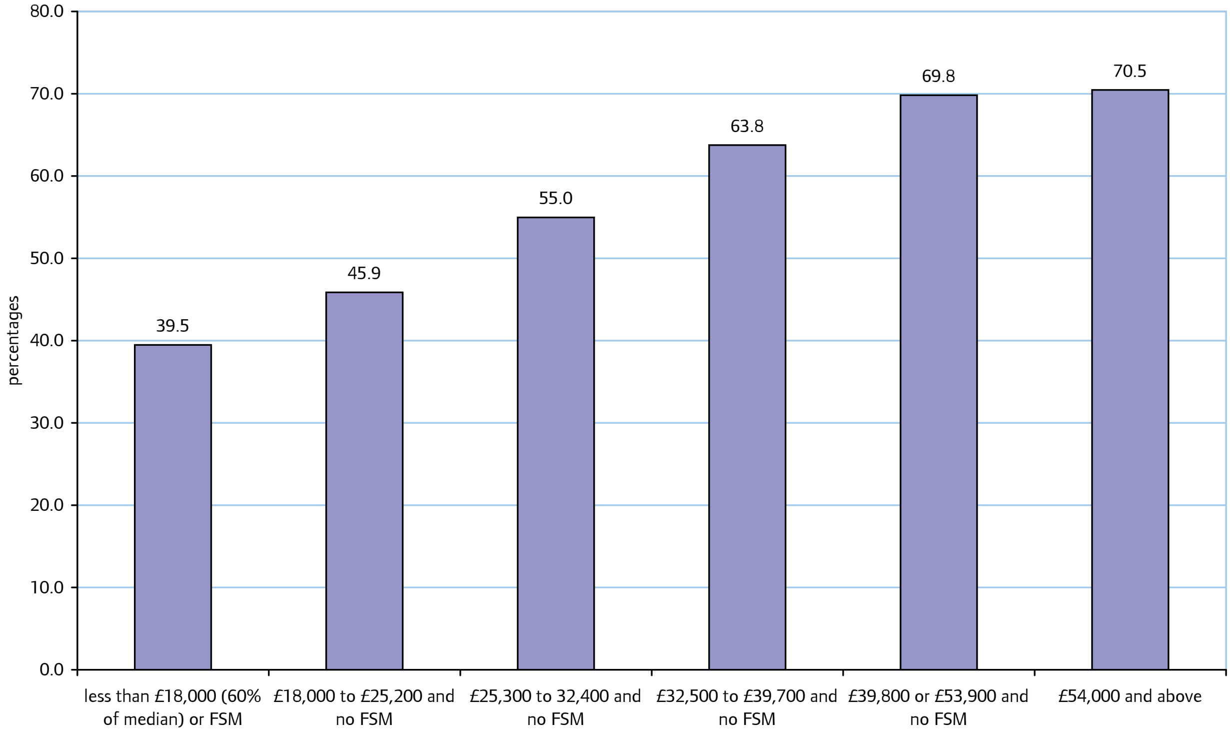
London's labour market is unusual. Demand for labour is high and employment levels were growing until the onset of the recent recession. However, over the last decade or so, the gap between London's employment rate and that of the country as a whole has not closed. One of the reasons – but not the only one – is a lack of qualifications amongst some residents, resulting in a partial mismatch between a demand from employers for high qualifications and a significant proportion of the capital's population having relatively few or no qualifications. However, qualifications are not the only factor impacting on worklessness. A greater concentration of groups who experience lower employment rates (wherever they are located) in the capital, the higher costs of living in London and the interaction with social housing tenure all play a part. The consequences include a loss of economic output, an increased fiscal burden and an impact on the prospects of tomorrow's workforce through its impact on the children of workless adults today.

Therefore, due to a mixture of low pay, worklessness, and high housing costs, many Londoners find themselves living in poverty. This is a problem seen not just in social problems such as higher crime rates and poorer health outcomes that characterise many low-income areas of London but also in the fact that a disproportionately high number of London's children (39 per cent) live in low-income families.

As well as being detrimental in itself, child poverty can also impact on an individual's future: people who experienced poverty in childhood are more likely to have low incomes and worse employment prospects than those who did not have poor childhoods; whilst children from poor backgrounds are less likely than other children to continue in school after age 16, or to attain educational qualifications.

Figure 7.1 illustrates this issue. It shows that educational attainment amongst children is strongly correlated to parental incomes. Indeed, the differences between pupils' GCSE results are larger when comparing pupils in the same ethnic group but of high and low socio-economic status than when comparing the difference between ethnic groups.

Figure 7.1: Pupils (aged 15 in 2004) achieving 5 or more GCSE A*-C grades or equivalent by home income group and Free School Meals (FSM) entitlement



Source: DMAG using merged 2002 – 2005 LPD

With high levels of skills and qualifications becoming increasingly important to succeed in the London job market, the fact that almost four out of every ten children live in poverty is a major problem, given that children in low-income families significantly under-perform their peers in educational attainment. The risk is therefore that these children will themselves as adults continue to live in poverty, either workless or in low-wage jobs, in no small part due to their lack of qualifications, and that deprivation in many areas of London will continue.

From the point of view of London employers, if they are unable to find sufficient skills amongst residents, they will look to migrants from abroad to fill their jobs, as already occurs (or in the extreme case, look to locate in other destinations). However, employers would clearly benefit from being able to employ suitably qualified local residents. As such, the need to raise educational attainment amongst London's young people, and particularly those from low-income backgrounds is clear. It would help the London economy, and it would help alleviate some of the social problems that currently exist in many of London's deprived neighbourhoods.

Many of the poor socio-economic outcomes covered in this Chapter are frequently concentrated in certain parts of London – in particular areas in North and East London. Over the last 40 years or so many policy interventions have been made in these areas. However, there is a lot of evidence to suggest that over this period spatial inequality has hardly reduced; a recent National Equality Panel report suggests that spatial differences are more pronounced today than ever before[28].

Whilst this area is complex, what is clear is that area-based initiatives on their own are not sufficient in tackling inequality: national and regional macro-economic policies are essential in creating the job opportunities and the necessary housing needed to reduce disparities in the long-term.

Appendix 1: The role of the public sector

This evidence base has illustrated many of the main issues facing London. The question is then what public bodies like the GLA, LDA and TfL should do about such issues.

The evidence base has analysed the issues facing London in the context of market forces, particularly of the global nature, that have done much to shape London's current industrial structure and economic success. This starting point reflects the economic principle that free markets are, under certain ideal conditions, the most effective way to organise economic activity for the collective benefit of society. However, interventions by the public sector are necessary in some instances because real-world markets are subject to failures that prevent an efficient allocation of resources and harm economic performance as a result. It is therefore by addressing market failure that policy and interventions developed by the Mayoral strategies can improve London's economy and the welfare of its population.

However, it is important to be aware that public sector intervention is not without costs and there are risks posed to social welfare when activity is undertaken by the public sector (an issue known as government failure). Interventions by the public sector, even when underpinned by clear rationale, may not necessarily result in an improvement to the status quo. What is important is that interventions are appraised such that the expected benefits from an intervention significantly outweigh the costs of the intervention.

Lastly, the public sector can also act to alter what it believes is a socially undesirable outcome (for instance too much poverty) and in London the Mayor has a mandate to intervene for such equity reasons. Equity based interventions can involve a trade-off with market efficiency with the value judgements regarding this trade-off made by democratically elected politicians. Even here, however, a market failure framework can be used to inform decisions and interventions to ensure that the desired outcome is achieved in the most efficient and effective way.

Endnotes and bibiography

Endnotes

Chapter 1: Trade and London's economic specialisation

1 'Trade and the Global Economy: The role of international trade in productivity, economic reform and growth', HM Treasury 2004 (chapter 2).

2 See for example, Krugman and Obstfeld (2003).

3 The index of specialisation is calculated as:
(London employment in sector / London total employment) / (Rest of GB employment in sector / Rest of GB total employment).

Therefore if the index of specialisation is greater than 1, then this shows that London has a greater share of its total jobs in the sector being examined than does the rest of GB. As such it can be regarded as an area in which London has some specialisation. The higher the index of specialisation above 1.00, the greater the degree of specialisation.

By contrast if the index of specialisation is less than 1, then this shows that the rest of GB has a greater share of its total jobs in the sector being examined than does London. The closer the index of specialisation gets to zero, the smaller London's role in the sector being considered is compared to the rest of GB.

4 Estimates of London's exports are based on data from the ONS Pink Book and ABI employment data – see 'The value of London's key exports' in 'London's Economy Today', Issue 61, September 2007 for more detail.

Chapter 3: London's attractiveness to business and people

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Chapter 4: The outlook for economic growth

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13 Full details of GLA's long-run employment projection and projections by sector are set out in GLA Economics Working Paper 38.

Chapter 5: Risks and opportunities from climate change

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15 See for instance: GLA, 2008, London: Winning in a Changing World. Review of the Competitiveness of London's Financial Centre; Bischoff, W., Darling A. (May 2008) UK international financial services - the future. A report from UK based financial services leaders to the Government; CRA International (2008) The Impact of Taxation on Financial Services Business Location Decisions, City of London Corporation, London, February. Livingston, I., Sharp, R., Booz & Co (October 2009) London: World capital of business.

16 Chote, R., Crawford, R., Emmerson, C., Tetlow, G. (2009) Britain's Fiscal Squeeze: the Choices Ahead. IFS Briefing Note BN87.

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19 Due to the size of the investment and running costs, it is generally considered efficient for public transport systems to operate at full capacity in relation to passenger numbers.

20 For instance see: GLA, 2008, London: Winning in a Changing World. Review of the Competitiveness of London's Financial Centre and London First (2008), Imagine a World Class Heathrow.

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22 However, it should be noted that the Mercer Worldwide Cost of Living survey shows London falling 13 places (from 3rd most costly city to 16th) in 2008, primarily as the result of the significant depreciation in Sterling.

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Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Bengali

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

Greek

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

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاهتے هیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطه کریں

Turkish

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

Arabic

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

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:

Gujarati

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