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London Capital of Boom and Bust ?

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Ian Gordon

London Capital of Boom and Bust ?

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Introduction

- 1 The academic community has proved as prey to the glamorisation of superstar (aka 'global') cities as are the popular media, in whose operations (significantly) they tend to play key roles, as well as in the headlines and gossip columns. This is scarcely new. Elite cities have always had international reputations, especially when attached to great colonial or trading empires. But in the current electronic age, where cultural and commercial globalisation require academics to develop international reputations, their sway has become pervasive. Adding further to the pile of coverage, for non-local audiences, now requires some justification, at least in terms of an improved understanding of how their performance relates to that of other 'ordinary cities'².
- 2 The emergence of such 'superstar regions' is a real economic phenomenon, which Perrons³ explains via Quah's account⁴ of how a combination of strong scale economies and reputational factors produce individual and corporate superstars in the burgeoning 'knowledge' sectors (i.e. those with high symbolic content and low reproduction costs). The expected consequences include not only greater inequalities between places, but also (especially) within those large cities with the strongest reputations in these fields. And, where (as in Gyourko *et al*'s 'superstar cities'⁵) success entails not only strong attractive power but also limited land availability, residence becomes a scarce luxury good, increasingly available only to higher income households. These are genuinely important objects for study. But, as Beauregard suggests⁶, there is also a reputational economics in terms of academic publication, with incentives both to focus on places with claims to celebrity/paradigmatic status and to underwrite such claims, in seeking an interested and responsive audience. Realities, of course, may be different, more complex and/or banal.
- 3 For urban scholars, teachers and students who would like to build a multi-dimensional understanding of how it is that places 'matter' in the contemporary world, there *are* some obvious advantages in development of a cumulative collective familiarity with a few specific places. At the least, this can offer a shared awareness of the contextual background to more specific analyses and stories focused on some of these same places. This is also clearly true for crime (and other 'genre') writers for whom, it *can* instantly supply context, a sense of reality, and some glamour too, without having to keep the reader unduly long from a desired immersion in the plot of their stories. Similarly, accumulated exposure through the mass media to episodes in the (observed) lives of celebrities, or the (fictional) ones of characters in popular 'soaps', offers both an impression of familiarity and some awareness of rather more complex back stories, giving both sense and interest to the latest fragment of viewing, gossip or tabloid coverage.
- 4 These potentials are not all well realised in practice. What is widely 'known' about the character and dynamics of superstar cities may be no more representative, reliable or profound than in the case of human celebrities, or the settings of fictional narratives. Each is prey both to 'news' management by interested parties, and the aesthetic/ideological requirements of (what will be received as) 'a good story'. In the urban case, a major casualty of the superstar/celebrity perspective is a blindness to the essential diversity of cities, both internally (within any of them) and comparatively. The temptation to synecdoche – taking a place's most distinctive element as the single key to understanding it⁷ – is by no means unique to the case of superstar cities. What is unique is the suggestion that superstardom itself – having achieved a position at the top of a global central place system – is now their crucial characteristic.
- 5 The implication that this sets a model of success, which other cities should be striving to emulate, in the interests of their populaces, is damaging on two counts. The first is the

equation of performance in such terms with the general interests of their residents, rather than of a dominant faction/coalition. The other is its distraction from the crucial point that the key to success for cities and their residents lies in (somehow) finding *distinctive* ways to capitalise upon their particular sources of potential advantage (the real lesson of Michael Porter⁸), as a route out of what otherwise will be a (global) ‘race to the bottom’. This is true even among the candidates for ‘global’ status. Even among the trio of cities (London, New York and Tokyo), with the strongest combination of international financial plus ‘command and control’ functions, on which Sassen focused⁹, she showed a very clear differentiation and complementarity of roles. Beyond these, however, good cases can be made for seeing an array of other cities as ‘atop’ a global hierarchy (including e.g. Geneva, Rome, Los Angeles or even Houston).

6 Twenty years later even the financial hierarchy looks a little different. Tokyo’s position (maybe never truly global) faded sharply, while those of Chinese-oriented centres have risen¹⁰. And even the sustainability of London-New York dominance came into question after the 2007-9 financial crisis exposed a fatal short-termism in the practices of banks that were ‘too big’ (or inter-connected) to be effectively disciplined either by the market or the state. It is a good time then to look a bit more closely at the character of economic success in one of these cities (namely London), its connection with economic instability, and how far both of these attributes actually depend on the global/financial roles with which its superstar reputation is currently most associated.

7 In the rest of this paper I approach these issues in three stages. First, I take a long term view, situating the current (post-1980s) era - in which London has functioned as a competitively successful centre for advanced services within an increasingly liberalised international economy - in relation to two quite different roles that it played during the preceding century or so. Then I focus on its performance during the last of these, when overall economic resurgence has been accompanied by increased unevenness, both temporally and socially, in the form of volatility and inequality. Finally, I look at how London itself has fared in the period of economic downturn triggered by the financial crisis, and why on this occasion it seems to have been protected from the worse impacts experienced elsewhere.

London’s Role in Three Major Eras

8 At the risk of some oversimplification, it is useful to think of the economic history of modern London in terms of three major eras, centred on the late 19th century, the mid-20th century, and the late 20th century. Somewhat similar distinctions might be applicable, with modification in other major metropolises within the advanced economies (for instance in New York, whose immigration history sharpened the contrasts¹¹).

9 During the late 19th century, which I would characterise as the era of London as an *Imperial City*, its population was growing extremely rapidly, in what had become the first majority urban society. Unlike the other emerging British conurbations, which were all closer to the key extractive resources of coal and iron ore, London was not then a city of large factories. Nor, despite its status as capital of a great Empire, did it yet have a very large sector of government employment. Rather it remained predominantly a city of relatively small manufacturers (as distinct from machine-fabricators), artisans and service providers of various kinds, oriented particularly to the needs of a resident elite as well as to the importation and processing of commodities from the colonies. The strong role of international trade contributed to a high degree of cyclicity in activity levels, while the competitive character of most activities added to the instability in demand at the micro-level.

10 The impacts of this volatility were most directly felt by the city’s working class, among whom a substantial proportion were employed on a casual, or semi-casual, basis¹². This involved direct and repeated competition with others for the currently available work, and a continuing uncertainty about economic prospects which was not conducive to stable habits or forward planning. Indirectly as well as directly then, it contributed to high levels of poverty, especially in the recurring periods of economic recession. The incidence of poverty and worklessness was exacerbated by the price competition facing London manufacturers from

the technologically advanced northern factories. The roots of the instability, however, lay not in economic weakness but in aspects of the London economy associated with its continuing economic success, including the roles of international linkages and the competitive flexibility of a large agglomeration.

11 The structural nature of inequality and the social tensions associated with it stimulated active responses of several different kinds, including charity, efforts at remoralisation or isolation of the underclass, and initiation of the kinds of social enquiry that paved the way for the welfare state. The crisis actually passed, however, for quite different reasons, as changing technologies shifted the balance of locational advantage toward industrial sites close to the major markets (rather than to material sources).

12 From the turn of the 20th century London thus moved into a new economic era – as **Fordist national capital** - during which it became Britain’s leading industrial centre. With the waning of globalisation, particularly after the First World War, and the rise of industrial Fordism and of white collar bureaucracies (in the private sector as well as in a more activist state), together with mass trade unionism, the London economy became much less volatile and offered more security to the mass of its workforce.

13 The new light industries of the 20th century, including the most technically advanced elements, came to be disproportionately concentrated in and around London. These new factories included significant US inward investment projects. But the era was generally one in which international connections played a much weaker role in the city’s competitive position, than its centrality to the UK economy. And the advantages of agglomeration were realised more straightforwardly in terms of scale (including the capacity to provide workforces for larger establishments) rather than flexibilities.

14 Through this era London continued to expand in economic terms, even though the imposition in the 1940s of a planners’ Green Belt around the (current bounds of the) continuously urbanised area - now identified as Greater London - came to displace actual population and employment increases into a wider metropolitan region. It was an era also of relative stability, both economically and socially, with the city enjoying substantial protection from the worst ravages of the Great Depression (felt much more severely in the older industrial regions), and with a wider spread of opportunities for economic security and progress.

15 This economic regime, however, also passed, as another wave of technological changes and shifts in the pattern of economic competition emerged, from the mid-1970s on. Manufacturing employment in Greater London itself had actually been in steady decline (by around 3% p.a.) from the start of the 1960s. With generally falling employment densities within manufacturing establishments, and competing demands for space from denser service activities, expansions in the sector increasingly took place outside London. Rising incomes brought similar trends involving residential decentralisation across an expanding metropolitan region, with steady reductions in the population of its core city (i.e. Greater London). Though widely perceived as evidence of failure in the city economy, these trends were actually driven by growth, and represented a progressive restructuring of the city’s spatial form and economic base.

16 In combination with more pervasive international shifts in the form and pressure of economic competition, this quantitative re-balancing brought (from the early 1980s) another qualitative shift in London’s role – to that of a **Post-Industrial Global City**. This label can be misleading, since the national economy and national policy stances remain much more important than direct engagements with a global economy¹³. But, it signals some of the key shifts. A renewed emphasis on flexible, market-focused forms of economic organisation - within a more fully integrated world economy, demanding qualities-oriented responses from producers in the global north - has brought a revaluation of the traditional strengths of diverse agglomerations such as London, with long-established international connections and the capacity to attract ambitious young professionals and creative ‘talent’. At the same time, de-industrialisation and deregulation together have eroded the base of stable jobs for workers in the ‘middle mass’ of the city’s native population, built up during the previous era.

17 In broad terms then, whether seen in terms of the much extended regional economy (the Greater South East identified by Peter Hall¹⁴, which stretches some 120 kms out in all directions) or

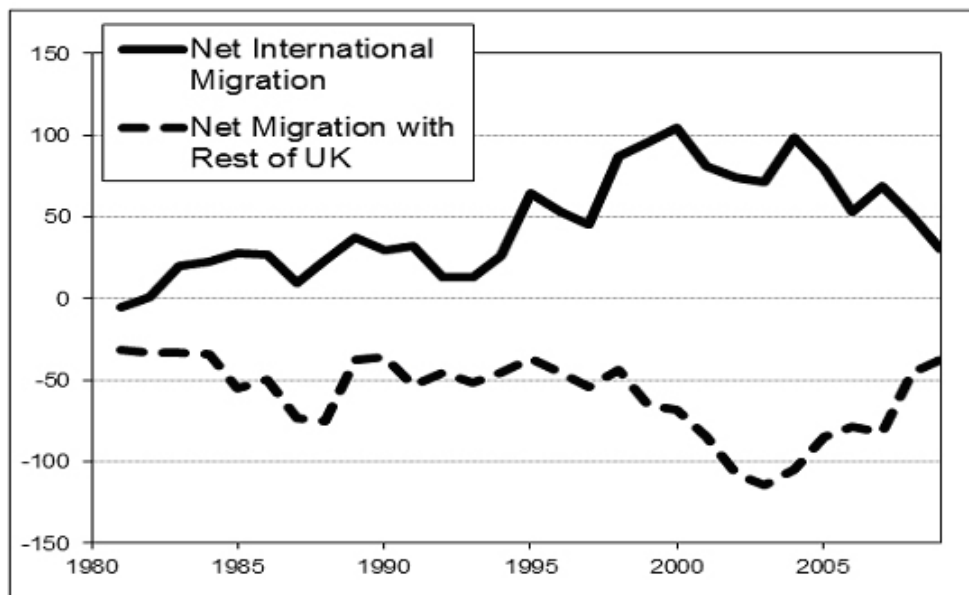
the more limited territory within the Green Belt governed by the Greater London Authority/ Mayor of London – where the shifts appear in heightened form – the London economy can be seen not only as having moved forward into the era of ‘posts’, but in some respects also back toward its earlier (late 19th century) model. Specifically, this seems to involve a combination of strong, market/service-based, growth with greater (structural) inequalities and more (temporal) volatility – a dynamic boom/bust economy.

The New (Late 20th Century) London Economy

18 Evidence on trends in three key indicators – population, employment and relative earnings (proxying for productivity) together suggest that the London economy experienced a real turnaround from the early 1980s on. This is (at least) consistent with the idea that a re-configuration of international competitive forces had played to the city’s established strengths, releasing a potential that had only been partially realised during the previous era. More specific conjectures linked this turnaround to the introduction of competitively motivated policies of deregulation in the UK (flexibilisation) and/or to the general expansion of transnational command and control business functions (globalcity-isation).

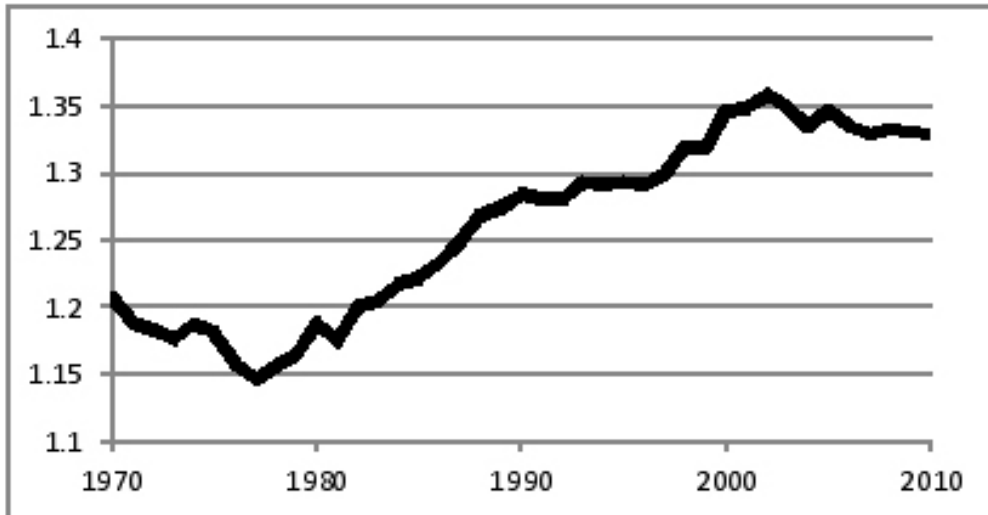
19 Slightly closer examination has revealed significant differences in the time profiles of change on the separate indicator series, suggesting that several different factors have been at work¹⁵. Thus, it can be seen that *population growth* was boosted at two distinct points, first in the late 1980s and then more decisively in the late 1990s, when non-economic factors (notably asylum-seeking) boosted international inflows into London. Their direct impact was offset by a displacement effect, with increased out-migration from London to neighbouring regions during periods of peak immigration (Figure 1). But the net effect was strongly positive, because migrants from poor countries could be accommodated in larger numbers (at higher densities of occupancy) within the bounds of Greater London.

Figure 1: London Net Migration: Internationally and with the Rest of UK 1981-2009

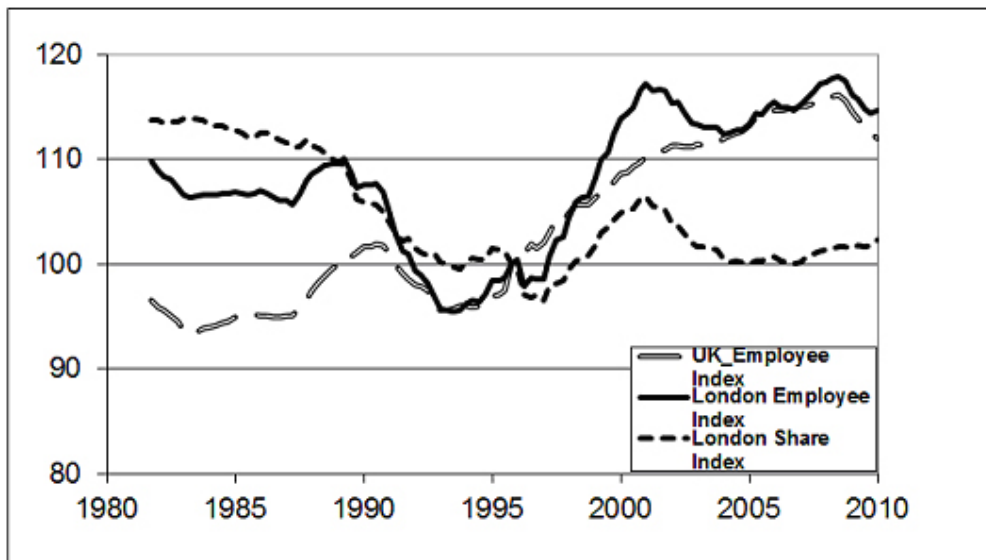


20 In the case of *earnings*, where the gap between London and the rest of the UK more than doubled, the shift came earlier and was in fact heavily concentrated during the (1979-1990) Thatcher era of de-regulation (Figure 2). This association is causally significant, though it is not clear how far the boost came from:

- enhanced competitiveness as a consequence of product market deregulation (including the 1986 ‘Big Bang’ of restrictive practices in City financial services); or from
- the UK-wide enlargement of earnings differentials, as a consequence of more fragmented wage bargaining – which served to raise average pay rates in a city with many more workers in highly paid job types.

Figure 2: Mean London earnings for full-time workers as ratio of the GB average 1971-2010

- 21 In relation to *employment* the picture in terms of how trends have actually changed is more complicated. At an aggregate level, statistical analyses suggest a turning point around 1982. When disaggregated to specific sectors, however, it appears that significant changes were confined to the manufacturing sector, where the absolute scale of job losses was curtailed, as the base of jobs vulnerable to continuing exponential decline rapidly shrank. Alongside continuing substantial trend growth in business service jobs (if not in finance), the net effect was to end the steady downward trend in total London employment evident since the early 1960s¹⁶. Whether its replacement involved effective stability, modest growth or (as London Mayors/planners assumed) rather strong growth is not immediately obvious from inspection of graphed trends, since these show a very high degree of volatility (Figure 3).

Figure 3 London Employment Trends relative to those for the UK 1981-2010 (Index 1996=100)

- 22 In fact, reversing the pattern of the previous 3 decades, since the early 1980s London employment has displayed more sensitivity to cyclical fluctuations than that in any other British region, with swings some 60% above the national average¹⁷. This partly reflects the fact that the two substantial economic sectors which are most conspicuously over-represented in the London economy – finance and information/ communication – have now become the most cyclically sensitive, apart from construction, instead of the capital goods and consumer durables sectors which used to occupy that position¹⁸. In fact, however, this sectoral mix factor only accounts for a small part of the strong cyclical sensitivity now displayed by London, and (to a lesser degree) by the neighbouring South Eastern region which also includes

much of the more dynamic / innovative kinds of activity associated with London's extended functional region. Indeed across all regions, the pattern seems to be one in which cyclical sensitivity is positively correlated not only with the representation of the more dynamic, knowledge-intensive sectors, but also with stronger agglomeration 'potential', which is also expected to contribute to dynamism. Rather against the prejudices of earlier decades when cyclical sensitivity (seen primarily in terms of vulnerability to down-turns) was assumed to go with economic weakness, now it appears that such sensitivity is associated with areas of conspicuous economic strength (perhaps because it is booms that tend to drive macro-economic fluctuations). But London is now certainly the pre-eminent example of a boom-bust syndrome in economically strong British regions.

23 This tendency was first clearly demonstrated in the mid-1980s boom, associated with Big Bang and strong expectations about what enhanced global city status could do for the London economy. Optimism was somewhat deflated by the Wall Street stock market crash in late 1987, at which point City employment peaked. But demand in the UK economy (and employment across London as a whole) was sustained for a couple more years by an expansionary macro-policy, until this was reversed in the name of stemming inflation. This reversal brought especially sharp falls of employment in London, much of it in consumer service sectors as well as in financial/business services, both UK and internationally oriented (Gordon, 2000). A decade later the experience was more/less reproduced in the boom/bust associated with the 1995-2000 'dot-com bubble', associated with exaggerated/deflated expectations about the profit potential of the first wave of internet start-ups. On this occasion, even the initial downturn in City financial services was more modest and a supportive monetary policy managed to sustain something like peak demand (underwritten by very high levels of personal borrowing) right through until the financial crisis of 2007/8 (to which we will turn in the next section). But even in this case, London jobs were clearly responding with disproportionate strength to the national swing in labour demand.

24 There are a number of plausible explanations for the particular volatility of London employment in the context of the 'new economy'. The first involves the continuation in a new form of the old tendency for cyclical fluctuations in output to be most intense in sectors producing capital goods/consumer durables, for which demand was contingent on expectations of future growth in sales or income, and even replacements could be deferred until cash flows allowed. In an economy where 'intangible assets' - including human capital, intellectual property, organisational structures, market intelligence and brand recognition - are recognised to form an increasingly important part of business assets, and one more liable to be sourced within a (post-industrial) UK economy, we might expect their producers to be similarly subject to large cyclical fluctuations. And, though direct data are not available, we might further expect the highest order centres (notably London) to specialise more in the creation of such long-term assets, while those in lower centres concentrated on services linked more directly to current production, sales and receipts.

25 Intangibility in that context refers simply to the fact that the assets concerned - for example, designs, patents or computer software - are not (simply) embodied in physical objects.

26 A second hypothesis about the volatility of the economy of advanced service centres such as London has then to do with the inherently speculative character of activities close to the frontiers of knowledge, creativity and fashion, and the consequently problematic valuation of the person, firm and place-specific assets, conceptualised as human, social, intellectual, culture and territorial capitals. The old show-biz adage of 'only being as good as your last show' surely applies to many of these - though what is capitalised is the expectation of a series of comparable good 'shows', and the 'buzz' factor identified as a critical element of agglomeration economies by Storper and Venables¹⁹ is very much bound up with the dynamics of these speculative valuations and their consequences.

27 This 'buzz' factor has tended to be translated²⁰ as relating quite straightforwardly to a knowledge creation process, albeit with a tacit character that tied its availability to a specific place (or maybe network). An emphasis on the purely cognitive aspects of tacit knowledge, blanking out the affective, evaluative (and political) aspects with which these are mixed,

and surely figure strongly in ‘buzz’, might be seen as emasculating these, and the kind of urban interactions which underpin them. Storper and Venables actually talk about the ‘super-additive’ effects arising, in dense urban environments with concentrations of high ability people, from the interaction of several key features of face-to-face contact. These were:

- its high efficiency (i.e. speediness) as a form of communication of (tacit) information;
- its effectiveness in overcoming the co-ordination/incentive problems arising from with uncertain environments;
- its capacity as a socialisation mechanism for formation/reproduction of in-groups; and
- its strength in generating psychological motivation.

28 On my reading of these, they represent a combination of elements capable of stimulating both high levels of real, substantive innovation (in the sense not merely of intellectual creativity but its translation to successfully marketed practice), and of continuing speculation (in the sense again not merely of conjectures, but of acts of real investment, and disinvestment, underpinned by powerful animal spirits, both positive and negative.

29 In practice, in the context of an agglomeration such as London, this speculative practice extends beyond acts: of commercial innovation and investment, on the one hand, and of fashionable consumer practices on the other; through decisions about team and capacity development or potentially sustainable levels of consumption (relative to perceived wealth); to purchases of and valuations of *space* in which to accommodate these. The particular constraints/inelasticity of supply of this factor in such areas implies a third hypothesis about the strength of the (positive) link between areas’ economic dynamism and their cyclical sensitivity, through responses to fluctuating perceptions about the cost and value of space for residential and commercial uses. This also has a speculative aspect to it, because expectations about future prices and rents seem to be very heavily dependent on recent values and trends, while supply and/or demand-side responses to these are rather slow to materialise. In the case of London offices, in particular, analyses in the late 1990s²¹ suggested that, after two-three years, differentially higher rents in London led *both* to substantial increases in the supply of space (through new construction) *and* to substantial reductions in office-related employment (through dispersal of jobs less dependent on face-to-face). Both responses thus tended to overshoot, reinforcing the volatility in London jobs. A similar kind of dynamics in the residential market could be expected to magnify swings in consumer expenditure, with the potential also in a post-industrial economy to stimulate bottom-up cycles from internal dynamics in successful metropolitan regions²².

The Financial Crisis and After: if ‘it ain’t broke’, why not?

30 Given this clear pattern, and plausible rationales for it, various commentators²³ expected that an early 21st century ‘bust’ would also have disproportionate effects on London employment – even without the fact that the triggers to this bust proved to be a financial crisis in which the City of London (with its Wall street partners) played a key role.

31 Since the signals of this crisis first emerged in autumn 2007, events have evolved through a series of stages, with several ‘turns’ on the way ‘down’ and in the period of depressed activity that has followed. These have had uneven effects on London, and the statistical evidence about their impacts remains a bit confused. But, whether judged in these terms, or from the (rather clearer) impressionistic evidence of activity levels in the streets and bars of central London²⁴, it is very evident that over the past 4 years as a whole London has *not* suffered disproportionately badly, and that indeed overall (and especially for groups and activities closest to the heart of the crisis) the city seems to have ‘got away with it’. This may very well be true for New York City also²⁵ – but it requires explanation, at least for the London case.

32 The effective start of the crisis came with the recognition (when US housing markets faltered) of the scale of risk exposure from with the large volume of sub-prime mortgage lending during the mid-2000s. This was principally a US phenomenon, but had echoes on a much more limited scale in the UK. In both cases it had been largely initiated by provincially-based building societies (notably Northern Rock in the UK case). But it was leading international finance houses from the two ‘global’ financial centres who underpinned the explosion of

credit - through development, marketing and accreditation, of sophisticated new kinds of financial instrument which obscured the relationship between traded 'securities' and the narrow portfolios of shaky assets underlying these. And, remarkably, it was major 'wholesale' banks based in these two centres who ended up holding a large part of these dubious assets at the point when their true worth started to become evident – and thus exposed to potentially bankrupting liabilities, not as a result of ill luck (as with many other 'victims') but of systematic commercial irresponsibility.

33 In the initial phases the impact was concentrated in the housing market, with sharp cuts in construction activity. But tightening credit became a progressive problem for businesses seeking expansion, carrying high levels of stocks, or dependent on credit-financed sales (e.g. of cars). Consumer expenditure on durable/postponable items was more directly hit from early 2008 by an independent shock, from sharp increases in global prices for fuels and food-stuffs. Together with the credit-crunch this encouraged widespread destocking (across advanced economies) of manufactured goods/intermediate products, with a particularly strong impact on trade in these commodities. Despite the origins of the crisis, and against the pattern of the 1990s, as the UK economy and others moved toward recession, the major impacts were seen in manufacturing sectors (especially those related to the motor industry and household durable goods) and in distribution. In most service activities, both private and public (apart from distribution/freight and air transport), output and employment levels were, however, stable over the first year of the crisis.

34 The real crunch came only with the collapse (in September 2008), of Lehman Brothers, which finally drove home the extent to which mainstream finance houses (in New York and London, particularly) were caught up in the securitisation of sub-prime loans. It also suggested that states would not necessarily provide cover against failure even for very large banks, and drastically reduced banks' willingness to lend to each other even on a short-term basis, thus threatening the normal operations of the global financial system. An indirect effect was to substantially devalue personal financial savings, leading (a full year into the crisis) to a downturn in general UK consumer confidence and borrowing, with impacts appearing for the first time in output levels of key private sector services, including financial/business services, catering and transport.

35 There followed stages in which: the UK (and US) governments acted to preserve the established financial system via quantitative easing and 'bail-outs' of the potentially bankrupt major banks; an abatement of recession; and now (in the UK most specifically) rapid action to repair the public finances, including sharp cuts to expenditure. But, from the course of the early stages, it can well be understood why the crisis took longer to exact any serious impacts on the London economy.

36 In fact, during the first 15 months of the crisis, London employment actually grew, by 180 thousand jobs (on the evidence of the seasonally adjusted workforce jobs series), alongside a decrease of some 260 thousand in the rest of the country. The reason was not, however, simply that it had less of the manufacturing jobs at risk during this period, but more that most other activities held up a lot better in London than elsewhere (notably construction, and business/public services). Over the next 12 months (from December 2008), however, London job loss accelerated more than elsewhere, with a net loss of 210 thousand jobs, compared with 410 thousand in the rest of the country (according to the same data source). On that basis, the year that followed saw little further net change either in London or the rest of the UK, though with the capital doing slightly better (+40 thousand jobs against -20 thousand). Taking the whole of the 13 quarters since the crisis started, the contrast between London and the rest of the country is quite clear. Far from showing a much larger contraction, as previous experience led us to expect, London employment was effectively stable (+0.2%) over this period, while that in the rest of the country fell significantly (-2.5%)²⁶.

37 Several explanations might be offered for this outcome. The simplest is that it directly reflects the continuing underlying competitive strength of the London economy, especially in knowledge-based service activities. It certainly seems to have benefited from the stronger general performance during the post-crisis period of most sectors with higher levels of graduate

employment (finance, professional/scientific services, government, health and education, arts/entertainment – though not Information/communications). Among the more routine administrative and support activities, job contraction was even faster in London than elsewhere, while expansion in neighbouring regions suggests that dispersal of such jobs has been part of cost-cutting responses within office industries since the crisis. And (as Labour Force Survey evidence shows) it is among professional occupations – as distinct from managers or administrators – that London has most conspicuously out-performed other regions over the period since September 2007. The fact that during this down-turn the city did relatively well in those activities where it seems to have the strongest competitive advantage over the long term does not, however, explain why these activities should have been more protected than in previous ‘busts’, notably that of the early 1990s. Nor, to take a specific example, does it explain why, so far as employment was concerned, the negative impact on financial services of post-Lehman Brothers cuts was almost entirely borne by regions outside London, the city where the most closely-related activities were (still) concentrated.

38 Several partial stories might be told: about the continuing presence of ultra-rich expats in London; or about the positive effect on London tourism of the sharp depreciation in sterling during 2008. A rather more powerful one, however, involves the contribution of public service employment to overall change during this period. Nationally, the main public service activities (public administration, health/social work and education²⁷) showed a substantial employment growth over this period (notably in health), and effectively off-set about 40% of the job loss in other (private) activities. In London, however, their growth was even stronger (especially in health/social work), and this factor alone could account for the fact that London’s overall performance in employment terms bettered the national average. The fact that construction employment in London showed a slight growth rather than substantial decline is also likely to be primarily attributable to unusually high levels of public sector investment in the city, in infrastructure, Olympic and social housing projects.

39 The other really notable factor, however, involves ‘the dog that didn’t bark’, in the form of the collapse in financial service employment from the potentially bankrupt banks which was averted by the government bail-out. Quantifying the significance of this public sector action for London employment is difficult, not least because the bail-out was intended to boost balance sheets not cash flow or profits. But as Andrew Haldane (from the Bank of England) has shown²⁸, the government’s underwriting of the banks’ position in itself forms the basis of a massive implicit subsidy to the banks via a reduction in the rates of interest below what the market would have required them to pay without this back-up assurance - in situations where otherwise there would have been significant risks of default. Haldane estimates the value of these implicit subsidies as rising from £11 billion in 2007 to £107 billion in 2009. The implicit subsidy continues, though in April/May 2011 one of the rating agencies (Moody’s) announced a review of ratings for UK banks, with a prospective downgrading, in the light of guidance from UK authorities that ‘banks that fail in the future should not expect capital injections from the public purse’. This would involve reduction of the level of implicit subsidy, especially to smaller banks, though Moody’s expected to retain the assumption of a high level of systemic support for major banks since the agency ‘believes that the regulators do not currently have all the tools necessary to resolve such institutions without causing financial instability’²⁹.

40 93% of this subsidy was estimated to have accrued to the Big 5 banks (the ones that were ‘too big to fail’), with virtually all of this presumably propping up their ‘wholesale’ operations, which are very largely concentrated in London. The potential significance of this can be seen by comparing the estimated size of the implicit subsidy in 2009 (£109 bn.) to London’s total Gross Value Added (on a workplace basis) in that year, amounting to £265 bn. Overall, about half of the gross surplus in the financial intermediation sector accrues to labour, which might thus have been expected to gain about £55bn in 2009. By way of comparison, the total wage bill of London workers in that year is estimated (from ASHE data) at about £121 bn. However, the impact of such injections ought properly to be accounted, including their effects on the wider UK economy. It seems clear that the bail-out is likely to have brought a really

substantial injection into the London economy, on a scale which could well have neutralised the disproportionately large employment ‘bust’ that would otherwise have been expected.

Conclusion

- 41 The starting point of this paper is the thesis that, even though the simple power of numbers in a major agglomeration such as London might be expected to dampen the impact of any more-or-less random fluctuations in demand, there are powerful forces working in the reverse direction that can be expected to engender substantially wider cyclical fluctuations than in smaller urban areas. The fact that this did not appear to be the case during much of the 20th century was attributed to specific characteristics of the role which London (and possibly other leading national centres) occupied during this era, as a Fordist national industrial centre. In its previous role, as an Imperial City, and centre of elite consumption, its dynamic appears to have been much more unstable, and when the Fordist era passed and it made the transition to the role of a post-industrial global city it (once again) emerged as the most cyclically unstable of British regions in employment terms.
- 42 Against an earlier stereotype associating cyclical sensitivity with economic weakness (and the recurring risks of recession for marginal activities), it was argued that such sensitivity was now positively associated with economic dynamism, and with forms of buzz that generated powerful boom/bust tendencies in close association with innovativeness and competitive advantage.
- 43 The observed pattern of fluctuations since London made the transition to the ‘new’ (post-industrial, post-Fordist, and strongly internationalised) economy in the early 1980s involved employment fluctuations 60-70% greater than the UK average.
- 44 Against expectations based on this experience, and its direct involvement in the genesis of the 2007-8 financial crisis, the scale of job losses over the following 3-4 years actually proved to be significantly less in London than in other parts of the UK (as may be true also for New York City relative to the US as a whole). In particular, London workers in professional occupations appear to have come through the recession without facing major job losses.
- 45 The explanation for this more favourable outcome – and the perception that ‘London has got away with it’ – is argued to lie, however, not simply in the underlying strength of the London economy/labour force, but rather in specific factors which have worked to *protect* it against the worst consequences of the bust that it helped engender. In particular, it is suggested, that the city (and core groups in its work-force) benefited from: particularly favourable trends in public sector employment and investment over these years; concentration of cost-cutting by beleaguered finance houses on more routine jobs outside London, while safeguarding key workers in readiness for the next boom; and by the massive implicit subsidy to the major banks provided by the state’s willingness to underwrite them against potential failures that could seriously damage the financial system.

Notes

- 1 This paper is based on two presentations: to a November 2010 conference in Nancy, on *Londres: capitale internationale, multiculturelle et olympique*; and to a January 2011 Urban and Regional Economics Seminar Group conference in London on *Small, Open Economies and the Financial Crisis*. Helpful comments from participants in both are acknowledged.
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- 24 Or house price trends, since London stands out as the one UK region showing significant increases in average (mix-adjusted) prices over the period from September 2007-March 2011 (of 2.2% against a national decrease of 5.4%), according to the government's Regulated Mortgage Survey (<http://www.communities.gov.uk/documents/statistics/xls/1904567.xls>).
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Résumé

A class of 'superstar cities', including London, have become over recent decades both objects of concentrated academic speculation and sites for economic activities which are themselves highly speculative as well as dynamic and magnifiers of inequality. The post-industrial, post-Fordist and internationalised economy evolving in London since the 1980s has made the city again the most (rather than the least) cyclically sensitive part of the UK economy. Rather surprisingly, however, it has suffered less than other parts of the UK in the downturn since the 2007/8 financial crisis in which its banks were heavily involved. The degree of protection enjoyed during this period reflects a combination of public sector expansion (prior to the austerity programme), safeguarding of senior professional jobs, and a massive government bail-out of the major banks' wholesale operations.

Entrées d'index

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