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The economic recession - why London escaped lightly

Employment in London has in the recent past tended to swing more violently than national fluctuations as in the Big Bang boom of the mid-1980s, the deep bust of the early 1990s, and the long boom of the past decade. Its large finance sector should have made it even more vulnerable to the latest bust, which started in that sector. However, in the 13 quarters since the crisis started, London has come through relatively unscathed with a 0.2% net increase in employment, while the rest of the UK suffered a 2.5% net loss.

London has however not escaped unscathed. Manufacturing, already a small part of the London economy, has experienced a disproportionate decline, well above the UK average, with a third of jobs going between 2007 and 2010. Admin/secretarial and skilled manual work has also declined.

There are many possible explanations for London's overall resilience. Public and corporate policies have helped to mittigate the impact of the recession. There has been stronger support for public services in London. The banks seem to have focused on seeking economies in the provinces. Government guarantees to the major finance houses are likely to have provided considerable support to their London wage bill.

However the vulnerable groups in the lower segments of the London labour market, or the young seeking a foothold in it have been badly affected by severely depressed demand across the country.

This briefing

This briefing has been prepared by Ian Gordon, professor of human geography at LSE drawing on analysis done jointly with LSE colleagues Henry Overman (director of the Spatial Economics Research Centre, SERC) and Max Nathan, together with discussion at an LSE London/SERC public event, where some of it was presented.

Key points

- The current economic depression evident across the advanced economies has its roots in activities of an internationalised financial sector, heavily represented in London. But it had its most malign impacts elsewhere, notably within the UK's main manufacturing regions, in the north and midlands - with London itself being least affected.
- Indeed London seems to have escaped any significant overall reduction in its employment base over the period since the onset of the crisis in autumn 2007.
- Worklessness in London has however risen significantly since 2008 (though by less than in regions outside the Greater South East). The increase has been heavily concentrated among young people in the 16-24 age range - a trend affecting outer London even more than traditionally vulnerable inner areas.
- This is not peculiar to London but the extent to which the employment impact has been concentrated among young people has been significantly greater there – and is part of the background to the riots of early August 2011.
- The actual picture of economic change in London during the crisis period is substantially clouded by published official employment series which offer quite inconsistent (and in some cases incredible) estimates of the scale, direction and composition of change. This makes intelligent analysis and consideration of appropriate policy-responses much more difficult.

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Booms, busts and the London economy over the long run

During the mid 20th century, before the major structural changes of the early 1980s, cyclical fluctuations in the UK economy were associated with macro-economic swings in demand for durable manufactured goods. The areas most heavily affected in employment terms were the industrial regions of the north and midlands. In this period London had the most stable record of any of the UK regions, though parts of Inner London, housing the most vulnerable groups, did particularly feel the effects of rises in national unemployment.

This pattern was radically altered about 30 years ago, as a consequence of deindustrialisation in the UK, the rise of advanced services, deregulation and the shift toward more 'flexible', quality-oriented business strategies in the face of intensified global economic competition. Macro-economic fluctuations in the UK became more closely associated with swings in credit supported personal consumption (and house purchases), with major impacts on service demand and employment.

Over the past 30 years, the most unstable UK sectors in employment terms have been those associated with finance and informational services. And the regions where job levels have been most conspicuously affected by boom/bust tendencies have been those where these sectors are most strongly represented – most notably London. Their degree of volatility has, however, been very much greater than would simply be expected from this compositional mix.

Previously, economic fluctuations were most readily understood in terms of recessionary shocks feeding through industries which were moving into a long term decline, followed by periods of recovery. By contrast, the post 1980s pattern appears as one where fluctuations are driven by booms in which real innovation is confounded with a pervasive upsurge in credit-fuelled speculative activity, until its excesses are eventually checked either by government action or expiry of market confidence.

During this period – including the Big Bang boom of the mid-1980s, the deep bust of the early 1990s, the dot.com boom/mini-bust and the long boom of the past decade, London employment has shown a persistent tendency to greatly amplified versions of national fluctuations, with proportionate swings in employment about two thirds greater than those experienced across the UK as a whole.

Even without the particular circumstances of the financial crisis of 2007/8, eventually triggering another major bust, it was reasonable to expect that London would be much more strongly affected than other regions whenever the long boom got reversed. What actually transpired was quite different.

- ### Immediate impacts of the crisis on the London economy

The financial crisis and its aftermath developed in a series of waves (with others still emerging), which have affected sectors and regions within the UK in quite different ways. The effective start of the crisis (as distinct both from the patterns of activity that produced it, and those which have followed on) was autumn 2007 with the emergence in the US of the significance of expanded sub-prime mortgage lending, and the related failure of Northern Rock Building Society in the UK. The real crunch followed a year later with the collapse of Lehman Brothers in New York, but September 2007 is the right baseline for assessment of impacts.

In the first year (during which the impact of tightened credit were exacerbated by commodity price hikes and falling consumer confidence) the main impact was felt in construction activity, and by the makers/distributors of durable goods, with trade (in cars etc) being particularly affected by widespread de-stocking. Service activities (both public and private) were scarcely affected, and financial service jobs continued to grow, notably in London.

Official sub-national employment series provide quite inconsistent evidence on London employment changes over this period, from which it is hard to draw reliable conclusions. But it appears (from ONS's revised version of the civilian workforce series) that overall London employment may actually have increased by 180,000 jobs over the first 15 months of the crisis (on a seasonally adjusted basis), alongside a decrease of 260,000 jobs elsewhere in the country, with really large job losses in manufacturing regions such as the West Midlands.

The picture reversed during 2009 (after Lehman Brothers' failure) with London job losses accelerating more than elsewhere, and a net loss of 210,000 jobs (in the year from December 2008) against 400,000 in the rest of the UK. The following year was one of effective standstill in employment terms, both in London (with net growth of 40,000 jobs) and the rest of the country (with losses of just 20,000). But putting together the picture over the first 13 quarters since the onset of the crisis, rather than being worse affected, London had come through more or less unscathed (with a 0.2% net increase in employment - while the rest of the country had suffered substantially (with a 2.5% net reduction in jobs).

A wide range of other indicators all point in the same direction - from still buoyant house prices in London, against the national trend, much stronger growth in central London office rents compared with provincial centres, the stability of Premier League football attendance since 2007 in the south (notably London) against declines in the Midlands and North, and the continuing health of London theatre audiences. Against the norm of the past 30 years, the financial basis of the crisis, and most predictions (including ours) the London economy seems to have survived the recession with much less damage than most other cities and regions.

A closer look will reveal some significant respects in which London – and Londoners – have not actually escaped unscathed. One example is what is left of London's manufacturing. After four or five decades of employment contraction, it has become a small enough part of the London economy for the kind of proportionate job losses to present only a minor threat. Nevertheless, the proportionate loss of jobs in London manufacturing has been well above the UK average, with a third of the employment base (some 80,000 jobs) disappearing between 2007 and 2010 .

The balance of employment change between types of job – and thus between the groups with access to these – has also been especially uneven in London. Those in professional jobs in the public and private sectors have ridden the crisis with least discomfort – without growth in their numbers actually being checked at any point (see table 1). This has also been true (so far) for those in the protective services, culture/media/sports, customer services and personal care jobs – while there have been substantial job losses in secretarial occupations, construction trades and elementary trades.

In almost all broad occupational groupings (except skilled manual) London had more positive employment trends than the UK as a whole between 2007 and 2010 – though most notably for professionals, associate professionals and personal/customer service. In London net job reductions seem to have been concentrated in the middle of the distribution, among admin/secretarial and skilled manual workers.

- ### What has London done right – or how has it 'got away with it'?

The substantial stability of London employment in the face of this particular recession (in sharp contrast to that of the early 1990s) is a puzzle with a range of potential kinds of explanation. The simplest of these are structural. In particular, despite its origins in the financial sector, the main casualties of the UK recession so far have been in manufacturing, which is now only a small part of the London economy. On the other hand, the public sector, where continuing employment growth had mitigated private sector job losses (up to 2010) now involves a smaller share of jobs in London than in any other region.

A second line of explanation emphasises fundamental sources of competitive advantage for the London economy, as a magnet for talented workers and an unrivalled location for timely information spread on a

Table 1 Change in employment by occupation type 2007-10

	London Jobs		GB Jobs
Job Type	000s	%	%
Managers/owners	+15	2%	1%
Professionals	+88	13%	6%
Associate professionals	+50	6%	0%
Administrative and secretarial	-26	-5%	-9%
Skilled manual	-23	-7%	-6%
Personal and customer service	+49	10%	4%
Elementary trades	+5	1%	-6%
Total	+157	4%	-1%

Source: Annual Population Survey for calendar years

face-to-face basis, which might be especially important in a downturn (Overman, 2011b) – though it may also contribute substantially to its volatility (Gordon, 2011). A problem with such arguments is to explain why it is only in this particular 'bust' that they seem to secure greater job stability in London.

A third line of explanation suggests that the city has 'got away with it' on this occasion through public and corporate policies which have (intentionally or not) given it substantially greater protection. In the early phases of the crisis, this clearly included (despite inconsistent evidence from ONS employment series) stronger support for public services in London. In the private sector, in seeking to recoup money lost through misjudged activities in the wholesale segment of financial services, banks seem to have focused on seeking economies in retail and back-office functions in the provinces, with substantial protection of central London jobs.

Most fundamentally, however, it appears that the security provided by government guarantees of support to the balance sheets of major finance houses – estimated by a Bank of England expert to involve implicit subsidies peaking at around £120bn in 2009 , and comparable in magnitude to the reported value-added of the sector (Haldane, 2010, 2011) – is likely to have provided a very considerable support to the wage-bill of wholesale financial operations within London – and thus indirectly to aggregate employment in London.

This has not, however, insulated the more vulnerable groups in the lower segments of the London labour market, or the young seeking a foothold in it, from the impacts of severaly depressed demand in other sectors and regions which are indirectly linked to this labour market.

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