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Wealth creation and poverty creation:
global-local interactions in the economy of London

Michael Edwards

This paper links an issue which has long been prominent in City*—the relationship between international and local processes—and a concern with London. London is at an important stage: after 15 years of de-regulation and weakened democratic institutions it is grappling now with a new governance structure outlined in a recent paper by John Tomaney (2001) and the preparation of new strategic plans, discussed here last year by Doreen Massey (2001). The focus here is on the interaction in London of markets for land, housing, commercial property, transport and labour - markets which can be instruments of innovation and dynamism but which can also be vectors of exploitation and inequality. It is argued that London's draft strategic plans have not yet got the measure of this dualism.*

Introduction

It is so hard to say, nowadays, where economic life takes place. The stores in London's West End are stacked with clothes, designed perhaps in Italy, London or New York, cut and made up in China and the Philippines from textiles woven in Turkey or Pakistan, on machines from Italy or Germany. They arrive by air freight at Heathrow, in planes made in Seattle and Toulouse, and reach the store via warehouses in the periphery of London. On arrival they are sold by workers from inner and outer London (and some from far beyond) to customers from across the world and across the nation. Such stories are so familiar that we become blasé about them - and about the flows of income and wealth which correspond to such an extended system of industrialisation.

A city captures, for a while, certain stages and moments in these processes—in this example London has design, retailing, some transport and a share of the resulting income and wealth. As more of the world's activity comes to be dominated by the corporations which orchestrate and finance production and marketing (at the expense of firms which carry out the operations), so we find more of the income and capital accumulation showing up as the 'product' of these dominant corporations and holding companies. These offices are highly concentrated in great cities, along with the financial companies which handle the transactions. Part of London's role as a 'world city' is to be a place where such wealth appears to be created.

In some respects these relationships are nothing new. David Harvey has recently reminded us of a much earlier account:

> "The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life or death question for all civilised nations, by industries which no longer work up indigenous raw materials, but raw material drawn from the remotest zones; industries whose products are consumed not only at home but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes..."
>
> Marx and Engels, The Communist Manifesto, 1848 (partially referred to in

Harvey, 1998).

When Marx and Engels were writing, however, it was perfectly clear that inequalities and exploitation were endemic within metropolitan capitalism: exploitation was clearly local as well as global. What has changed is our capacity to see that our metropolitan economy—the London of today—is both a fabulous producer of new products, new processes and new wealth and a powerful system for producing and transmitting inequality, not just across the world but within the urban fabric itself. This failure to understand is a threat to our capacity to plan and act collectively. If we had a better grasp of the underlying social and spatial relationships we would be half way to changing them—so we could have some of the benefits without so much of the inequality and inefficiency.

For the last year London has had, once again, an elected metropolitan government: an assembly and a mayor (Ken Livingstone), charged with producing and executing 'strategies' for the economy, transport, culture, environment and spatial development (Edwards 2001; Tomaney 2001). There is a grave risk that these plans may be grounded in a mistaken understanding of the London situation and may thus fail to achieve, for its citizens, the egalitarian aspirations which the mayor and senior politicians espouse.

The aim of the paper is to sketch an account of London's economic life which diverges significantly from the prevailing wisdom and to suggest ways in which the authorities should act differently. It is paradoxical (and may be reassuring to senior politicians) that the proposed shifts could work in favour of many business interests, as well as reducing impoverishment, exploitation and social exclusion.

There are many ways of thinking about the city. Here it is viewed through a discussion of the main markets which intersect here - the markets for labour, for transport and for land and buildings (including housing). This emphasis on markets is appropriate because a new feature of our society—and the UK has been rather in the lead—is a much greater reliance on market mechanisms for distributing what used to be public services: transport, housing, health, recreation, and energy. And markets are increasingly important in determining who gets access to the best of those services which remain universal and 'free': in particular, the housing market rations access to the best schools while the 'internal market' has changed the running of health and social services, universities and colleges. But do any gains in 'responsiveness' and 'efficiency' outweigh the losses?

The combined effects of these processes are not understood, either for UK cities or internationally. The paper thus outlines some of these forces as they operate in the case of London, emphasising the problems which arise from the 'successful' operation of markets just as much as those flowing from market 'failure'. To explore these forces fully will be a major research programme, and the need for it is urgent.

Market societies, and the capital which drives the dynamism of markets, are constantly changing, producing new innovations, new surges of growth and accumulation and, although they typically distribute wealth and prosperity to many, they ensure that poverty remains the reality for a significant proportion of the population of many cities. My argument here is that London should be seen as social system which produces poverty, just as it produces wealth, and that a lot of this impoverishment is avoidable.

Rapid change in market conditions occurs at global, continental and local levels, and within the city itself. Disparities between regions and within them remain severe and in many respects are worsening. Income differences between men and women, between social classes and between dominant ethnic groups and some minority ethnic groups remain stark and demonstrate the existence of inequalities within predominantly market economies. Within the London region many people are experiencing unprecedented prosperity; they can benefit from buoyant markets for labour, property and many goods and services while others have to compete in these markets with the odds stacked more sharply against them.

The international context

Whether or not 'globalisation' is a useful concept, we are clearly witnessing the extension of capitalism into new territories—what Hardt and Negri call the expansion of 'empire' (Hardt and Negri 2001) —to include the former Soviet Union, the Middle East and Asia. The violent and destructive absorption of these new areas is proceeding fast, policed and implemented partly through pliant states, partly through enforcement action on the less-pliant states via the World Trade Organisation (WTO) (e.g. the assimilation of China) and partly through indirect trade with areas where states have failed. Events since September 11 are clearly accelerating this process - indeed many would argue that the main aim of western policy just now is to press forward the subordination of the whole globe, with central Asia next in line.

These events take place against a difficult economic background. One particular problem of the world economy in recent years has been its dependence on the long-run US trade deficit to make good the demand deficiency in the rest of the world, to keep the rest of us employed (Brenner 1998) and to prop up the profitability of the world's swelling mass of capital investment. This is a second important factor for us to bear in mind, especially when we think of the vulnerability of the UK and of the London economy to external shock: however robust the EU and the UK claim to be, this dependence on the USA cannot be ignored.

A third international dimension is the peculiarly strong role of foreign direct investment in the UK: both inflows and outflows of direct investment are extremely large, both absolutely and relatively to GDP (UNCTaD 1997). We are a remarkably open economy.

Is there a "London Economy"?

The concept of 'an economy' is a tricky one. It used to be clear enough at a national scale, especially for an island nation, with the bulk of activity taking place internally, and with international transactions linking the nation to the outside. If records are good enough we can construct national accounts. This is beginning to pose problems for the national economies of Europe as the single European market settles down and cross-border trade within Europe becomes ever harder to identify. The problems are much worse for any city, even the most clear-cut and well-bounded city region, where at least some key economic relationships lie within the region. Within such a well-bounded city region it is plausible to think about supply-demand interactions in housing and labour markets. London, however, is defined still on the 1964 boundary—roughly the area within the Green Belt (within the M25 motorway)—so the cross-border flows of daily labour are huge and the housing market extends its influence 100km or more in all directions.

Thus all we can really do is to think about what is happening within the London boundary: a somewhat arbitrary chunk of the activity of the region and the nation.

Measured activity within the London boundary

We have about 7.4m residents (GLA 2001, 9) in Greater London, of whom about half are economically active (Figure 1). There is a net inflow across the Greater London boundary of about 700,000, adding about a fifth of the workforce. (Labour Force Survey quoted in LDA 2001 24; ONS LRC GoL 2000)

The structure of activity, as conventionally measured in official statistics, is subject to all manner of reservations. GDP of course measures only recorded activity, not the mass of "cash-only" transactions with which we are so familiar: the whole drug market, a great deal of small construction, repair, cleaning and personal services and probably quite a lot of retail and catering work. GDP also omits (by definition) the environmental and other external effects of recorded activity. Furthermore, it handles non-market activity (e.g. education, public services) on the basis of the costs of their inputs, rather than the value of their outputs; which leads to under-estimation of the value of public service activity. Unpaid domestic and voluntary labour are of course omitted too.

Fig 1 Greater London population since 1961 and projections to 2021

Source: (GLA 2001 fig 3).

Figure 2: Greater London: contribution of broad sectors to GDP and to employment (1996, 1999)
Source: GDP at factor cost, 1996, from ONS/GoL/LRC 2000 table 5.7
Employees by Industry from LDA 2001 26

The measured economy is demonstrably one in which finance and business services are dominant, contributing 39% of London GDP from only 32% of its employees (Figure 2). The numbers employed in these sectors have doubled in the last decade, despite mechanisation and labour-shedding in routine banking and insurance. Interestingly, the manufacturing sector in London is just as productive in terms of GDP per worker: it's a small sector in size but manages to be dynamic and flexible enough to survive, even in the face of the high costs which it confronts in London.

At the other extreme we have distribution, hotels, catering and many other services which contribute far more to employment than they do to GDP. In other words they are low productivity, labour-intensive activities - and hugely important: a quarter of working Londoners are engaged in shops or hotels or catering; a further quarter in public services.

Recent years have seen a very patriotic, almost 'gung-ho' approach in descriptions of the London economy, led by agencies whose job is to promote inward investment, but often echoed by consultants and researchers. We thus hear a great deal about the innovation and creativity of the economy, the overwhelming popularity of London as a visitor destination and gateway, the ability of its markets to dominate various international exchange processes and so on.

What is obscured by that perspective is the dual character of London as simultaneously a wealth machine and a poverty machine, as sets of relationships which produce exploitation and deprivation as surely as they produce growing net outputs. We should probably be glad that the Economic Development Strategy as revised last summer does include passages which acknowledge at least some of the problems, and all the latest Mayoral documents do contain some re-distributive measures. However my contention is that the mechanisms which produce our dual character remain effectively hidden. This is partly because - as market relationships - they are widely viewed as in some way 'natural'.

The extension of markets

The extension of market relations into ever wider areas of urban life further obscures the underlying relationships: in the days when the city council allocated housing sites the issues were clearly political; now that market criteria are seen to rule, the issues are the de-politicised ones of 'viability' and 'financial feasibility', abstracted and presented as unquestioned realities. Who are we to challenge these? The decision-making techniques for 'feasibility testing' are now taught to students of planning as part of their 'technical' courses as though they were as value-neutral as forecasting heat loss through a wall.

The 'extension of market relations' sounds abstract and perhaps a bit fussy. But the last two decades have seen so many—individually small—changes in how goods and services are distributed that we are in danger of missing the massive cumulative impact. In the last issue of *City*, Stephen Graham showed how the liberalisation and privatisation of telecommunications have led to dramatic polarisation in access to information between affluent and powerful groups and those in conditions of 'advanced marginality' whose access may actually be getting worse (Graham 2001). With Simon Marvin he has made similar analyses for the other network services on which we all depend like water and energy supply (Graham and Guy 1995). In the transport field, Londoners are much more exposed to market forces than are citizens of other European capitals because ticket revenue has to bear a much higher proportion of public transport costs. These changes are relatively easy to understand, once the analysis is done: we are moving in each case from state provision to market provision, the rich do better, the poor in most cases worse.

Another set of changes, however, is more complex. It arises where access to scarce commodities is effectively rationed through some other market. The important instance in London is access to what is perceived as 'good' state education. State education is free of charge to parents up to age 18, but of very variable quality between schools and between neighbourhoods. Until the Inner London Education Authority was abolished in the late 1980s, much effort and money was spent in trying to equalise standards of schooling across the inner areas of London. Since then, standards of schooling have diverged and parents with motivation and means have increasingly sought to improve their children's chances by living close to good primary and secondary schools. This individualistic competition for scarce and privileged access to education is now affecting house prices, just as competition for high quality environments has always influenced them.

Some other shifts are summarised in the Appendix.

The key urban markets...

Markets for labour

We could characterise our labour markets in London as very rich and diverse in the range of jobs and workers, very flexible (for employers), highly unequal in their pay patterns and not good at the internal housing or reproduction of the labour force. Greater London is dependent upon large flows of labour from outside the boundary, where reproduction conditions are quite different: cheaper housing areas are available further out (notably in Essex, east Kent, north Buckinghamshire and Bedfordshire) and it is to these areas that many inner Londoners have migrated in a moderate version of the 'white flight' afflicting many US cities. In these outer areas schools are often perceived as being better and the products of these schools seem to compete well in London's labour markets.

In another sense too, London depends upon labour raised and educated elsewhere. It is a heavy recruiter of skilled staff from many other parts of the world—the EU, the old Commonwealth and the third world (Mogridge 2000).

Alongside those who prosper in the London labour market, however, large numbers of ethnic minorities and of poor whites are effectively excluded from employment, or from progressing in their careers . The economic geographer Ian Gordon has drawn attention to what he describes as a 'bumping out' of working class people from jobs through the availability and recruitment of more highly-qualified (often "over-qualified") migrants, students and young graduates to fill positions which they would historically have expected to occupy—in catering, hotels, secretarial work and many other fields (Gordon, et al. 1997; Gordon 2001). This phenomenon must have effects similar to those of discrimination by employers and would thus be hard to distinguish from it.

A contributory factor in London's dys-functional labour market is undoubtedly the 'benefits trap'. For very many people of low or moderate earning-power living on social benefits it is hard to find employment which pays enough to justify going 'off benefit'. The difficulty and delay in getting back 'on benefit' after a period of employment are a further disincentive. For many people in London, benefits can be higher than the national average because of the level of housing costs (discussed later in this paper). It is thus entirely rational for such people to work just the limited part-time hours permitted under benefit rules, or to do some un-recorded 'cash-in-hand' work to supplement their benefit. Government policies to relieve poverty through getting people into employment thus face a major resistance in the London context.

Though not just a London problem, our contemporary 'flexible' employment patterns tend to be very bad for the sustainability and reproduction of the labour force: Linda Clarke has recently shown how damaging has been the effect in the construction sector of the shift to casual sub-contract labour on the sustainability of a skilled labour force, on productivity and on safety (Clarke forthcoming). Similar problems are evident in the maintenance and operation of the railways since privatisation, recently dramatised in the film *Navigators* written by Ron Dawber and directed by Ken Loach. More generally Richard Sennett has written of the damaging effect on social cohesion and solidarity of the shift to flexible working and insecure careers (Sennett 1998).

Markets for transport

A full discussion of how the London transport system is working is beyond the scope of this paper. Certain features of the current situation are, however, integral to my thesis, linking global forces with local outcomes.

First of course the airports. We have been hearing for decades that London must grow its airport capacity rapidly or risk loosing its 'hub' functions to competitor cities— Amsterdam, Frankfurt or Paris—with consequential effects on the whole economy of London. This has, of course, been the main thrust of the evidence given by British Airways and BAA (the former British Airports Authority, now privatised) to the recent public inquiry into the proposed new terminal 5 at Heathrow. The same boosterism and appeals to patriotism are echoed in the publications of the City Corporation and London First. Now we find it as a lynchpin of the Mayor's strategies (GLA 2001; LDA 2001; TfL 2001). This is a classic case of spatial competition producing bad outcomes: Hotelling demonstrated in 1929 how competing ice-cream sellers tend to cluster in the middle of the beach to avoid losing market share to their competitors: customers in remote parts of the beach would just have to walk (Darnell 1990). The rational alternative (for customers and for the environment) which has the ice cream sellers spread around the beach is simply not a stable outcome which market competition could produce.

In the airport case what we clearly have is a strong combined interest of the airport operators and their entrenched airlines in strengthening the domination of the world's hubs. This works at the expense of second and third order cities to reinforce uneven development. Aeroplanes can fly from any point to any other point and should thus—like cars—be able to contribute to more even development at a European and world scale. However, the market imperative on long-haul airlines to capture intercontinental flows through maximising feeder connections throws all these benefits away: it is as though all car journeys in the UK had to pass through a city centre and then out again. Not only do people in remoter regions have a worse service: they also pay more since the intense competition which drives prices down is only on the routes between main cities. Correcting for this sort of malignant tendency of markets is just what supra-national authorities should exist to do but in transport, as in international trade, the EU and other potential regulators do precious little to undermine the vested interests which conserve the status quo.

There is a political problem here too. It is clearly too much to expect politicians to be long-sighted and brave if they might risk seeming un-patriotic for their city or nation. Thus we have Ken Livingstone swallowing the rhetoric about Heathrow's Terminal 5 being essential for London's survival as a world city and the government giving the project the go-ahead in the name of national economic need—despite the government's ostensible commitment to regional development.

International aspects of London's life affect our transport markets in other ways too. Most important, perhaps, is the distortion of investment planning in favour of radial routes linking the centre (and Canary Wharf) with the outer suburbs and Home Counties.

London depends heavily on the network of radial railways which link the centre with the suburbs and, especially, with the scattered settlements of the region where over half a million London workers live. These far-flung workers include many of the highest-paid and best-qualified staff of government and of private firms, but they also include many middle-income workers who put up with long and costly journeys because only at that distance can they afford to enter the housing market, or afford the housing standards they seek. The system is very wasteful because it is used overwhelmingly in one direction only and has massive spare capacity for reverse travel. It is also heavily congested, and that problem is aggravated by the congestion on the central area tube network which distributes these passengers to their final destinations.

Of all the pressing transport problems of London, this is the one which has received most of the campaigning energy of corporate business and its organisations, such as London First, over the last 15 years. The outcome has been detailed designs for new investments which would link railways through the centre, rather in the way that the RER serves central Paris. Crossrail would run from east to west and an improved Thameslink from north to south. A third (shorter distance) line of the same type is also proposed now, linking north-east and south-west London through the centre (Figure 3).

Figure 3: Radial railway proposals for London
Source: Figure 4Q.1(TfL 2001)

Peter Hall, Drummond Robson and myself proposed, a couple of years ago, that the top priority in transport planning for London should be improvements in orbital bus and rail links between suburbs, supporting the growth of sub-centres and improving the access off low-income and middle-income residents to areas where they work or might be able to work (Hall, Edwards and Robson. 1999; Edwards 2000b). These ideas do figure in the Mayor's draft plans, and one leg of the new orbital railway (Ring-rail, now re-named 'Orbirail' - Figure 4) is already under construction, but the un-glamorous challenge of improving the accessibility among suburbs seem to have a fairly low priority after the flagship schemes for radial improvements.

Figure 4: Ring-rail proposal of 1999 superimposed on plot of London's most deprived wards

Source: based on (Hall, Edwards and Robson 1999).

Just as the major transport investments of the 1980s and 90s were sucked into the valorisation of the Docklands, and especially of Canary Wharf, so I think we now run the risk of prioritising real estate and corporate interests in the centre, reinforcing the over-concentration of London's activity and becoming ever more dependent on inefficient tidal flows of long-distance commuting.

Markets for land and housing

It is in the land and property markets that London suffers most grievously from the way markets work. Specifically, in south east England we have an acute form of the familiar metropolitan problem of inadequate land supply, massively reinforced in our case by the particular history of our urban and regional planning policies. The 'great achievement' of British planning is often claimed to be the London Green Belt, inaugurated during World War 2 and tenaciously maintained and extended ever since. This policy of 'urban containment' has results which are highly valued by many of its beneficiaries: those who live at the edge of London or in the protected landscapes of the region. Like so many other fine achievements of urban planning, this has produced (and guaranteed the scarcity of) some very fine residential settings and pushed property values up.

The effects can be characterised as a systematic structural barrier to fixed capital formation on most of the land in the region. This scarcity of supply confronts growing demand. The demand growth has many elements: the collapse of regional policy, population growth, falling average household size, real growth of incomes for perhaps half the population and a high income-elasticity of demand for housing (meaning that as people's incomes grow their demand for housing grows even faster).

These pressures, sustained over decades, create a tendency towards relative housing cost inflation in our region. For those in jobs where pay is low and unions weak (such as retailing and cleaning) and for those whose salaries are negotiated nationally (mainly public servants, from nurses to professors) these high housing costs (along with the high cost of transport) effectively lower real incomes. Living standards are thus depressed and this is a key part of the mechanism which makes London a poverty machine as well as a wealth machine. Low paid workers in London earn about the same as low paid workers in other regions (Figure 5) but their income buys much less.

Figure 5: Earnings of top and bottom deciles of full-time Employees, 2000

Source: New Earnings Survey 2000 part E table A21

In other areas of the labour market, where employers can afford to pay to attract and retain the staff they need in shortage categories, salaries are pushed up as we can see from figure 5.

A lot of employers do badly as a result. If they fail to compensate their workers for the costs of living in London they suffer from staff recruitment and retention problems - acutely so throughout the public services. If they do compensate their workers adequately, they have to bear the cost and this reduces the competitiveness of employers in a wide belt around London, especially in the west. Employers are also paying far more for their premises than they would in other regions, so it is doubly difficult for them to sell their wares at competitive prices. High prices are a major deterrent to those who might come to London - as tourists, as students, as shoppers or as consumers of its other services.

There is a powerful distortion whereby actual investment (in new construction, repair and maintenance) is lower than it would be in conditions of easier land supply. For example

- for households there is the familiar experience that you pay so much to service your mortgage that you can't afford to maintain or extend your dwelling;
- developers spend so much on sites that they are constrained to skimp on floor space, garden space and building quality.(Cullen 1982; Cheshire, Sheppard et al. 1985; Evans 1988). The early work of Ball (Ball 1983) was very effective in explaining the configuration of social forces which generated this characteristic form of speculative housing.

In terms of spatial structure, the property markets have been channelled in such a way as to produce regional decentralisation over long distances to towns where car-dependence for trips within and between settlements is strong (Ota 1995). Many parts of the region thus experience country roads saturated with traffic and severe pollution, while decentralising and growing businesses seeking locations have relatively few sites to choose among.

Within the towns, especially London, this mechanism produces pressure for densification of suburbs and in-filling everywhere - often at the expense of the environmental qualities and other use-values enjoyed by established residents. This is politically very tense, and the contradictions emerge in the NIMBY politics of the region very strongly.

The need for social housing becomes ever greater in these conditions because low- and middle-income people cannot afford what the market offers. In the UK a large proportion of our social housing has now been sold off through council tenants' 'right to buy' the dwellings in which they live at a discount to market value. New social housing is hardly produced any more except by non-profit-distributing, semi-autonomous, housing associations. For this housing association sector, the combination of

- high land prices,
- falling Housing Association Grant from government (HAG), and
- their consequent need for higher proportions of open market borrowing

means that…

- space and quality standards are under intense pressure;
- rents have to be high and rising (Figure 6);
- their tenants can afford a housing association dwelling only if they are prosperous enough, or if they are poor enough to get state housing benefit (HB). This is a problem for those excluded, for the occupiers, for management and for the social composition of schemes.
- only heavy government spending on Housing Benefit underwrites the market risk for lenders—a strange paradox where bankers have to defend the welfare system. Heavy HB costs arise in London as a result. While London households are, on average, less likely to be claiming benefits of other kinds, they are more likely than people in other regions to claim housing benefits (and relief from council tax) and, because of the levels of rents, their claims are much higher (Figures 7 and 8).

Figure 6: Index of London house prices and rents, 1992-9
Source: ONS/GoL/LRC (2000) table 4.15

Figure 7: Proportions of households claiming benefits.
Source: Source: Regional Trends 36 (2001) table 8.8
Figure 8 Housing Benefit payments to tenants, 1999-2000

Housing benefit payments to tenants, 1999-2000		
	London	**England**
% of households claiming	**20%**	**16%**
Weekly average claim	**£ 68**	**£ 48**
Annual cost	**£ 2.5 bn**	**£ 9.6 bn**
Annual cost per claiming hh	**£ 4,111**	**£ 2,877**

Source: Department for Work and Pensions 2000

The cumulative effect of all these processes in the housing markets can be summarised as follows. Massive transfers of income and wealth take place, the main beneficiaries being those who own or develop land and property. Homelessness and overcrowding are acute. The inequality of living conditions is exacerbated, technologies we need for housing and transport are never developed or optimised and moves towards real environmental sustainability are ruled out of consideration (Edwards, 2000b).

In terms of class politics the outcome is far from clear. There is absolutely no general appreciation of the real consequences of the operation of all these markets within the straightjacket of the containment policy. The rather small number of beneficiaries (institutional lenders, established owner-occupiers in the protected areas, developers and land owners) have marshalled the support of all political parties from the Tory right through to the greens in support of the sacred green belt and 'countryside'. Only a few economists (Evans and Cheshire referred to above) have noted the economic penalties and only a minority within the green movement have noticed some of the real social and environmental penalties (Fairlie and This Land is Ours 1996). Fairlie has pointed out that in much of southern England the poor and middle-earners are *prevented* from getting housing but *required* to use cars. But that is a critique from a rural standpoint: within London there is plenty of carping and protest about the symptoms of the malaise but virtually no articulate resistance and this may help to explain the lack of urban 'turbulence' discussed by Patrick Troy in his paper in this issue of *City*.

The Mayor's approach to the housing problem in his strategies is to pin all his hopes on a new compromise (or power struggle) with the developers of new homes in London. He wants to insist, via his Spatial Development Strategy, that all new housing schemes in London should contribute a large proportion of their dwellings to the stock of 'affordable' or 'key-worker' homes: a target of 50% has been discussed. The feasibility of this approach is discussed in the conclusion of this paper.

Markets for commercial property

It is evident that the operation of real-estate markets is a key mechanism in the over-concentration of investment in commercial building in the prime areas of European cities, and in the central cities within European countries.

Ever since Hotelling's powerful modelling of the behaviour of ice cream sellers on a beach (referred to above in the context of airports), it has been clear that competitive locational behaviour by retailers can produce over-concentration which is in no-one's interests but their own. They protect themselves from competition by clustering together, although consumers would be better served by a spread distribution. When strong externalities begin to arise from co-location the effect is further reinforced (and extended to other functions) and the more so when we realise that property investors in centralised concentrations can realise and appropriate value originating in earlier rounds of investment and in the state's investment in radial transport.

On top of all this 'rational' behaviour by investors is the irrational tendency which Richard Barras has examined for central London offices where investors seem to go for the combination of low returns and high risk in their lemming-like enthusiasm. (His analysis is unpublished but the evidence is clear in the annual surveys of the Investment Property Databank.). Normally markets in investments show an inverse relationship between risk and return: high risk often comes with high return, and the safest investments are usually less profitable. But for some reason the banks and other institutions active in British property markets compete so hard with each other to obtain properties in central London that the rate of return is driven down to a low level—much lower than would be expected for such volatile and risky investments.

Of necessity, if investment tends to be too concentrated in prime locations, it tends to be under-represented in peripheral locations—partly because investors are less informed about such places, partly perhaps because they expect high vacancy rates in such places. Certainly it appears that prospects of specially high returns are required to attract developers to provincial towns
(Henneberry 1995) and the same logic applies to suburban centres in London.

The Mayor's draft strategies do correctly argue that economic growth has made business premises scarce and costly in London. The strategy so far advanced in response to the scarcity, however, is just one of the available possibilities and—from the perspective advanced here—looks like a bad one. The Mayor takes it as axiomatic that growth is to be welcomed: he has clearly been advised that there is no alternative, that anything short of a pro-growth strategy would frighten investors away and send the London economy into a downward spiral. Essentially the strategy is to encourage business space development in the East of London (excellent) but also to relax the constraints on the sideways and vertical growth of the centre: on the South Bank, in Spitalfields, King's Cross, Paddington and so on. These areas on the edge of central London are still the home to dense mixed-income populations, highly vulnerable to gentrification, and also to small and medium enterprises of very diverse kinds: private firms in retailing, servicing the central area and providing innovative services; public services in education, recreation and social care and much of London's non-profit and campaigning organisations (from trade unions to charities and civilrights lawyers). There is thus a prospect of a lot of displacement of such activities by corporate occupiers in redeveloped space. This would almost certainly reduce the amount of local employment and increase the scale of long-distance commuting. And, whether or not that prediction comes true, the sheer growth of employment in the centre will further overload the rail infrastructure. The strong pressures for new investment in radial lines (referred to above) will thus be further increased but it will be at least 10 years before significant extra capacity can be built.

This relaxed attitude to the growth of the centre will also make it harder to cajole developers into moving eastwards and to the suburban centres which so desperately need rejuvenation. Paris only managed to develop its sub-centres through a very restrictive approach to the centre. Berlin, which made an ambitious plan after unification to be strengthen its poly-centric structure, has been utterly defeated by capitulating to a gadarene rush of investors to re-make the old centre. Alternatives do exist and should have been explored. It is particularly paradoxical since Ken Livingstone's top planning priority in his previous reign (the mid 1980s) was to protect the fringes of the central area through a 'Community Areas Policy' (GLC Greater London Council 1985).

The main issues summarised

The main thrust of the argument can be summed up as follows:
1. Markets have become very much more important in determining how the London economy works, and in distributing its products, over the last two decades. Some of these markets work directly (e.g. for telecomms, water, labour) while others also operate indirectly (e.g. the effects of housing costs on employers and thus on competitiveness; their role in rationing access to the best schools).
2. International flows of investment capital, of goods and services, of customers and travellers and of labour have come to play increasing roles in the processes of the London economy and understanding of these is very limited. London's economic growth in recent decades has strengthened these influences.
3. The type of growth we have been experiencing, operating in the way it does in the framework of London's planning regime and very restricted supply of space, amplifies the housing inequalities flowing from the mounting inequality of incomes.
4. High costs of space increase the operating costs of all organisations needing premises in London and, through their effect on wages, those who employ labour.
5. Market tendencies to concentration of activity produce negative as well as positive effects, at international and regional scales (uneven regional development) and within the city-region (over-production of buildings in the centre, reinforced by radial transport, at the expense of sub-centres.
6. The process as a whole generates regressive transfers of wealth through the housing markets and other property markets.

What is to be done?

The research agenda from all this is clear. Its purpose should be two-fold: to clarify the mechanisms linking global and local change and to demonstrate that the problems we have are of human making, not a 'natural' feature of market operations.

In the mean time London is busy with the debates on the Mayor's Strategies. Some comments on these strategies is an appropriate way to end this paper.

The fact that London once again has a democratic government, rather than just an administration, is to be welcomed. The area boundary is too small, the powers few, the fiscal base negligible. But it is progress.

The first round of strategies and drafts have much to commend them and the one which has been through a cycle of consultation and revision (the Economic strategy) has been strengthened as a result. In particular, the Mayor and his agencies do acknowledge the scale of inequality.

A fundamental weakness remains, however: the largely unquestioning commitment to continued growth. The negative effects of this form of growth have been discussed by Massey (2001) and in this paper and will certainly be the subject of intense further debate in the coming year when the draft Spatial Development Strategy is expected to appear.

If Londoners and their Mayor decide to be a bit more choosy about the kind of growth they want, then debate should focus upon
(i) major increases in housing supply, sufficient to bring prices (and price expectations) down, with some selective use of green belt land if that turns out to be necessary and feasible;
(ii) an end to the attrition of the public housing stock through the 'right to buy';
(iii) greater emphasis on public transport improvements in and between inner suburbs, rather less on long-haul railway commuting;
(iv) protecting and expanding the supply of business premises in suburban nodes, especially where this can lead to reverse commuting, and a tougher protection of the fringes of the central area;
(v) focus resources on reducing the exclusion of under-educated young people—both ethnic minorities and poor whites.

What kind of a settlement between capital and labour would this be? The Mayor has been arguing this year that he's seeking reciprocity from the property sector by being tough on housing: he wants to insist that all housing schemes should include about 50% of dwellings as 'affordable' and 'key-worker' units. It seems highly unlikely that this target can be achieved, or that it could have much effect on average prices in the open market. Indeed its feasibility surely depends on sustained expectations of price inflation so that developers have enough profit to cross-subsidise the low-cost units.

The alternative sketched here would provide the prospect of stable or falling housing costs in the open market, some relief for enterprises from rocketing labour and premises costs and a more egalitarian structural evolution of London—a more even balance between rich and poor areas. This might even be more conducive to social harmony. There would thus be gainers in the business community as well as in the low- and middle-income population. The main losers would be for some real-estate interests and the speculative aspirations of established owner-occupiers. Growth of measured GDP might be slower within London but that never was a good measure of social welfare.

Appendix

Notes on the extension of markets
The table understates the extent of the shift to flexible private provision because of the widespread out-sourcing of many services by public authorities and private corporations alike - cleaning, catering, security functions at the bottom of the skill ladder, but also of many professional tasks.

Public	***Transition***	***Private***	***Comments***
	no major change	**Food** and most consumer goods	
	no major change	**car** transport	
Health	Private provision failed to take off but PFI now the dominant form for new investment	PFI hospitals since 1990s	

until 1990s	Privatisation failed	**Rail** transport	Severe planning, investment, service and safety problems for London
until now	Partial privatisation now being considered	London **Underground**	Highly controversial
until 1980s	Privatisation by concession on routes	**Bus** transport	Works well, but at some cost to labour
until 1980s	Privatisation by sale and new entrants	**Telecomms**	Benefits from competition but failure to liberalise local loop; polarisation of access
until 1980s	Privatisation by sale; new entrants only in energy	**Energy**, water etc	? some competition benefits; adverse for environment; loss of local control
Schools	control devolved from ILEA to Boroughs, late 80s; some have private management		Access to best schools mediated through housing market
council **housing** down to 18% 2000	Council house building stopped; Hsg Assns not fully replacing it	**O / O** up to 58% **Private** rent 15% **Hsg Assoc** 8%	Rising homelessness and overcrowding; pricing out.

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