

London: Europe's New York

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1: Policy



2: Data



3: Answers





Planning for Growth

- *2002: Planning for London's Growth*
 - 'Accept Growth and plan for it'
 - 700,000 population growth 1986-2002
 - 522,000 Job growth 1995-2002
- Major decisions based on this
 - £15-£30 billion on transport
 - Accommodate growth in housing and offices
- Major change in UK strategy
 - London as a major national asset
- On what basis can such decisions be made?



Theory, data and policy

- To what extent is there a sound theoretical and empirical basis to take such decisions?
- How can it be improved?
- What role should be played by
 - Academic studies
 - Official statistical agencies
 - Governmental Agencies (GLA, LDA, RDAs, Ministries)
 - NGOs (think-tanks, lobby groups, etc)
 - Commercial suppliers of data and analysis



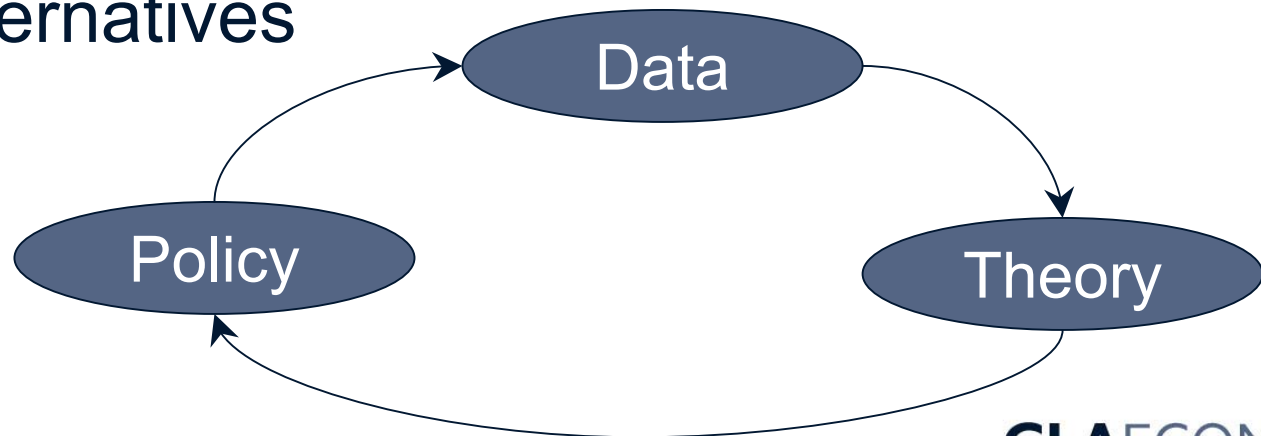
GLA Economics

- Set up in May 2002
- GLA group-wide
- 16 staff including 11 economists

To 'provide a firm statistical, factual and forecasting basis for policy-making by the GLA and its functional bodies'

Why data matters

- Policy: have to make a decision on some basis; cannot wait for a perfect theory
- Theory: have to be able to judge without prior prejudice between contending analyses
- Democracy: public must know how a decision was reached, and be able to consider all alternatives




The state of play

- Widespread agreement that
 - London is in some sense a ‘World City’
 - London underwent a step change starting in the mid-1980s
 - This involved a long-term reversal in population trends from 1985
 - It included a structural transformation of its economy from 1995
 - It was led by Finance and Business sector expansion
 - This was in some sense driven by ‘globalisation’
- BUT: no agreed model of spatial growth
 - See for example intro to Fujita, Krugman and Venables(1999)
- AND: London is unique
 - New York, Paris, Tokyo may be its only general comparators
- THEREFORE data is of prime importance




2: Data, what data?



“When it comes to productivity, it is the German cities that perform best across the study”

-Parkinson, Hutchings, Simmie and Verdonk(2004)

Competitive European cities – where do the core cities stand? Report to the ODPM



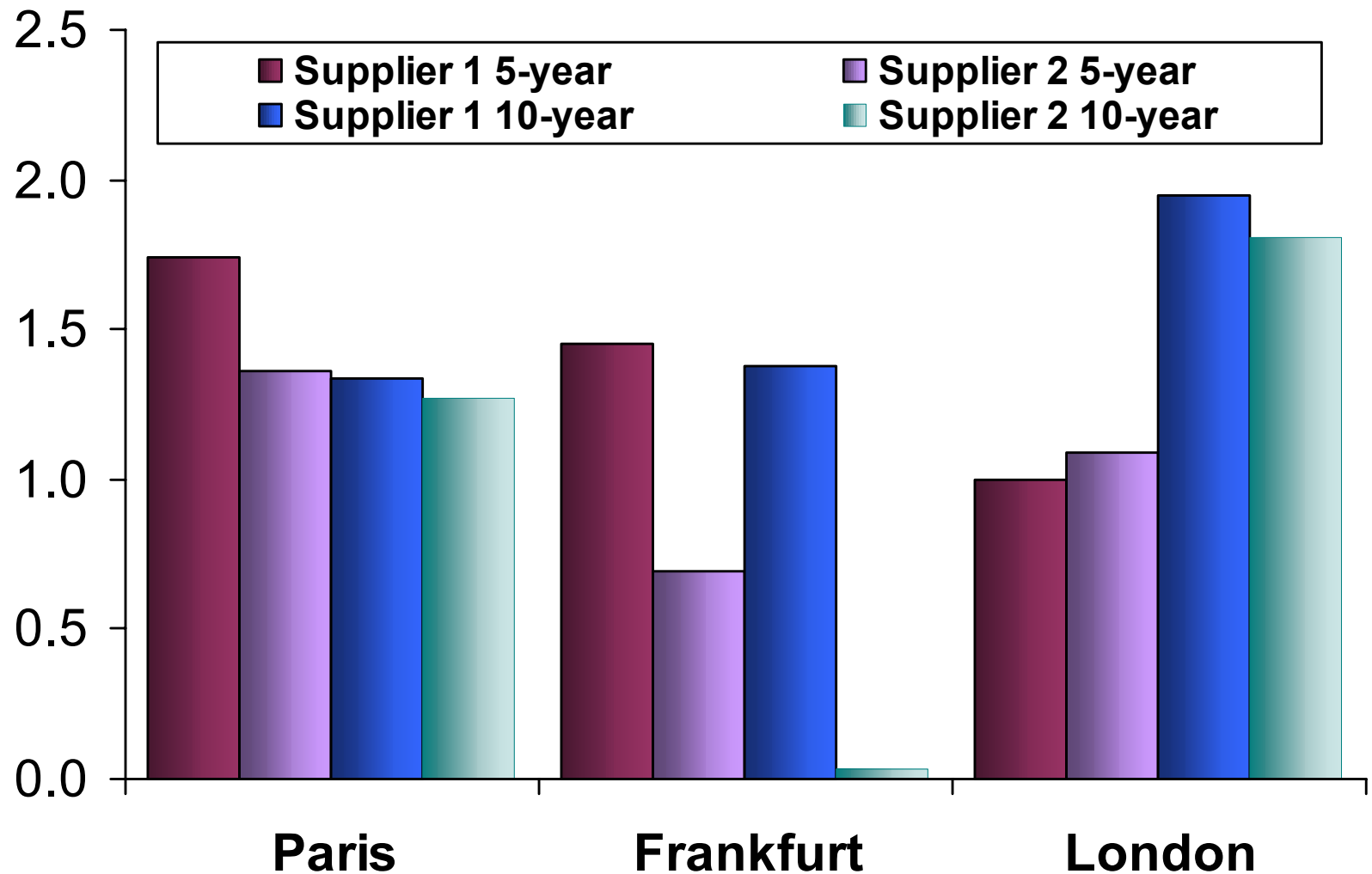
**While the position of New York,
London and Tokyo was
confirmed, the data also
showed the relative decline of
London and the relative growth
of other European cities
particularly Paris and Frankfurt**

- John Rennie Short (2002), *Cities and
Globalization*, GaWC 2002

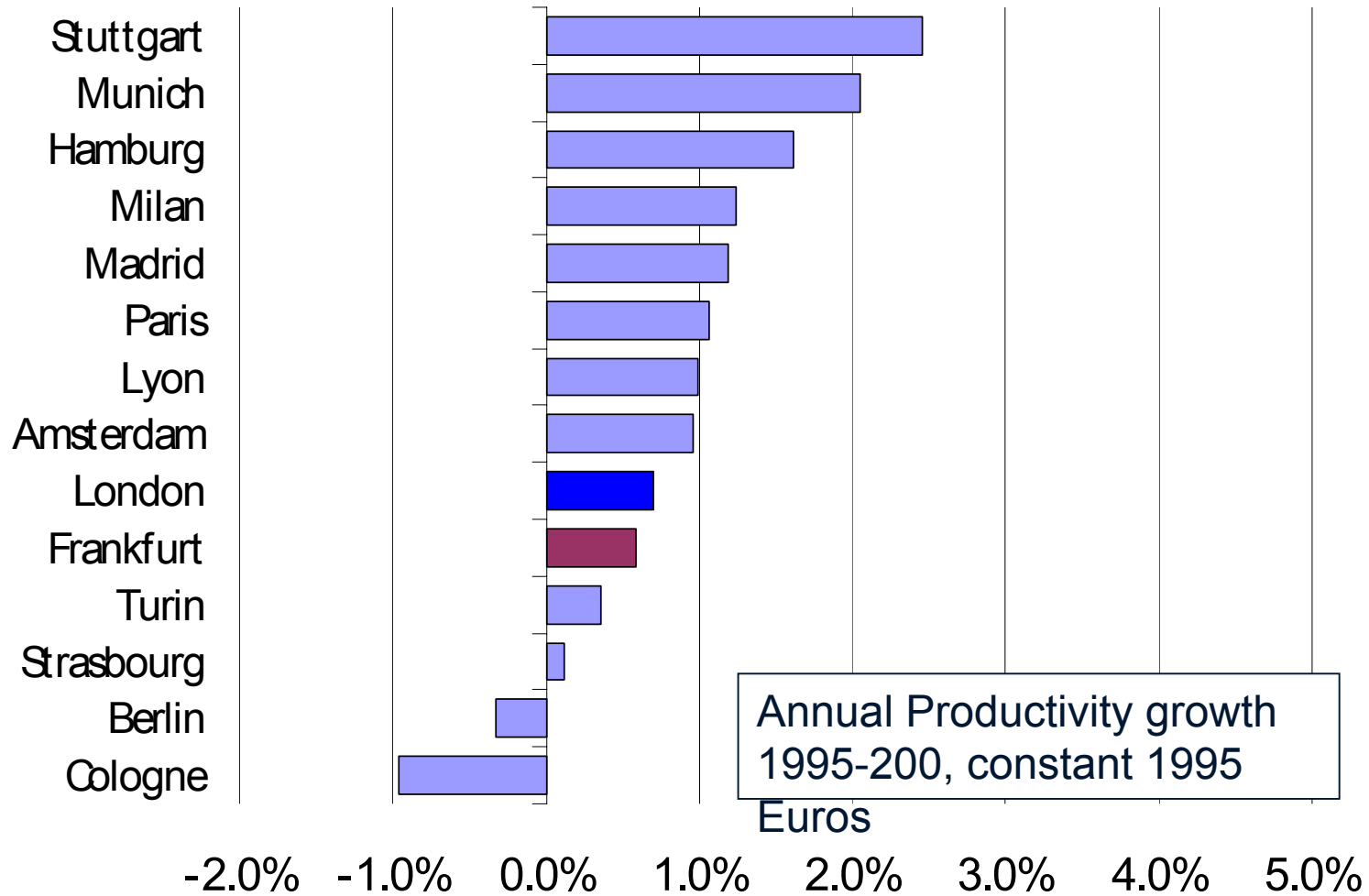
Four tales of two cities



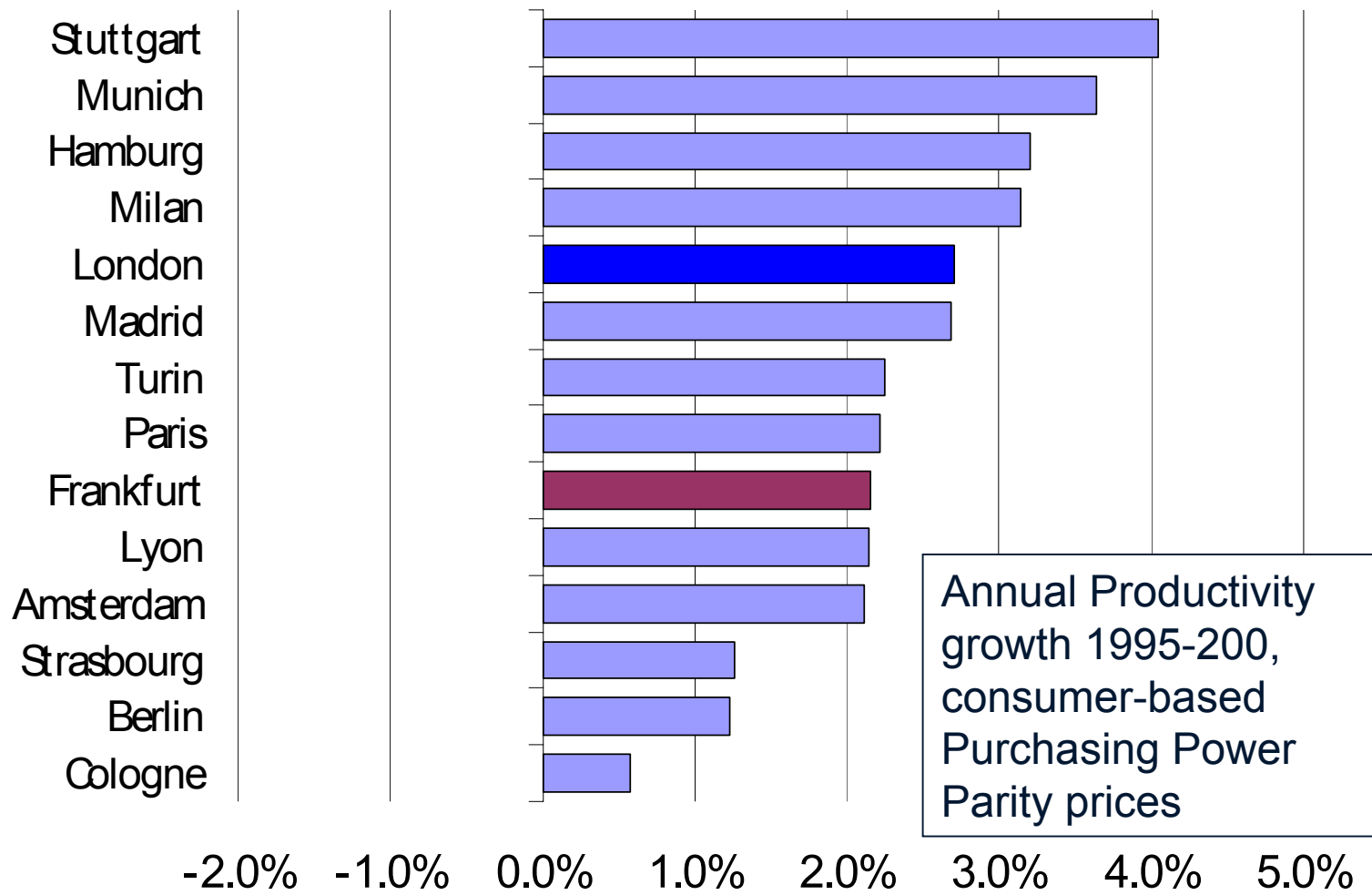
Annual growth in GVA per capita



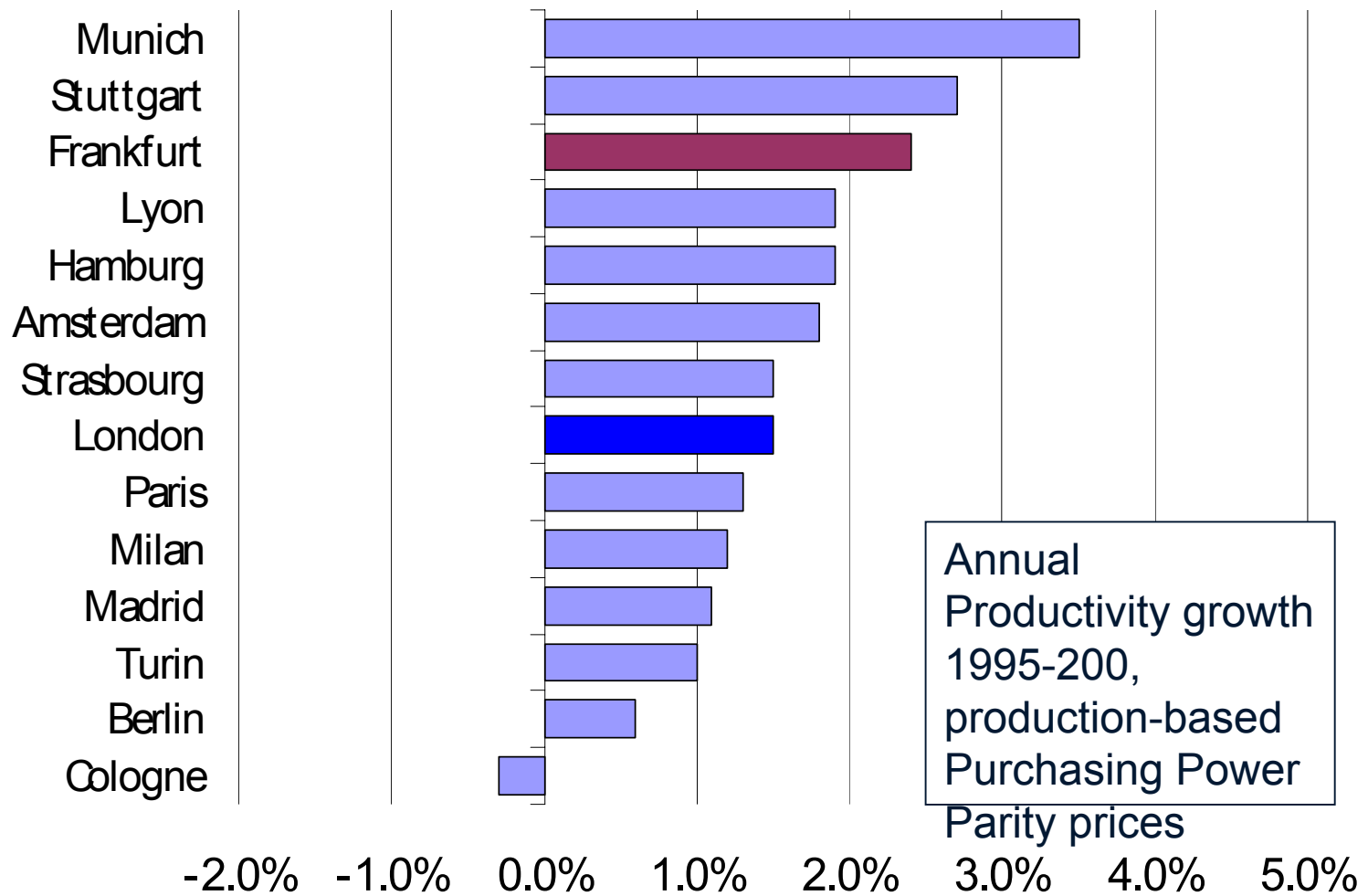
Where in the world is Frankfurt?



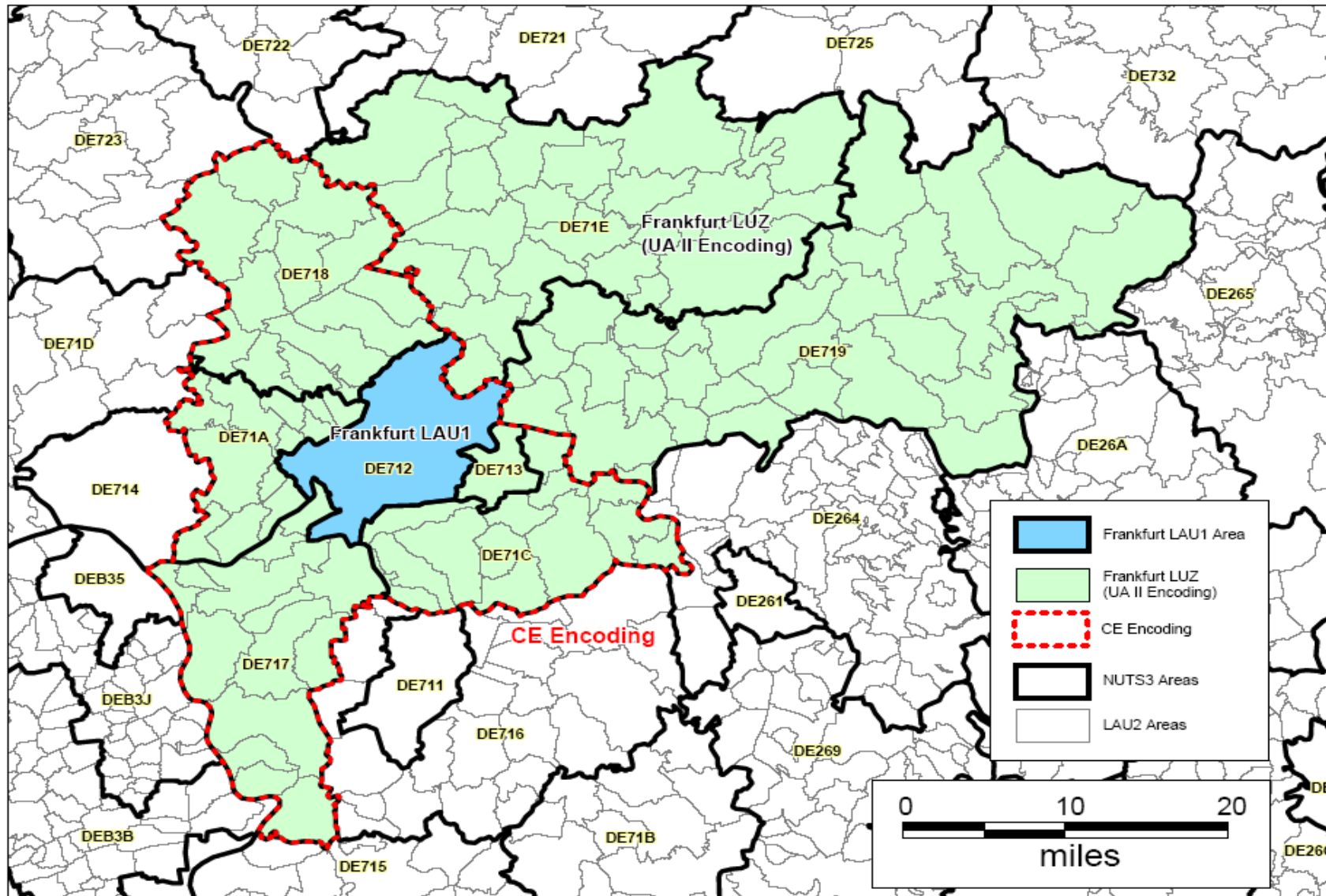
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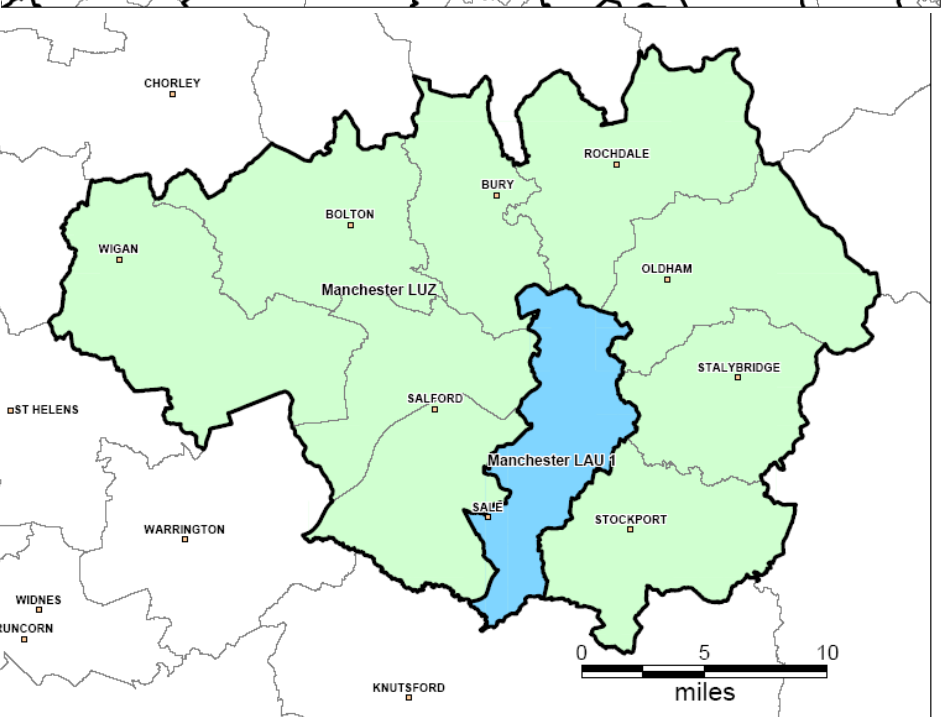
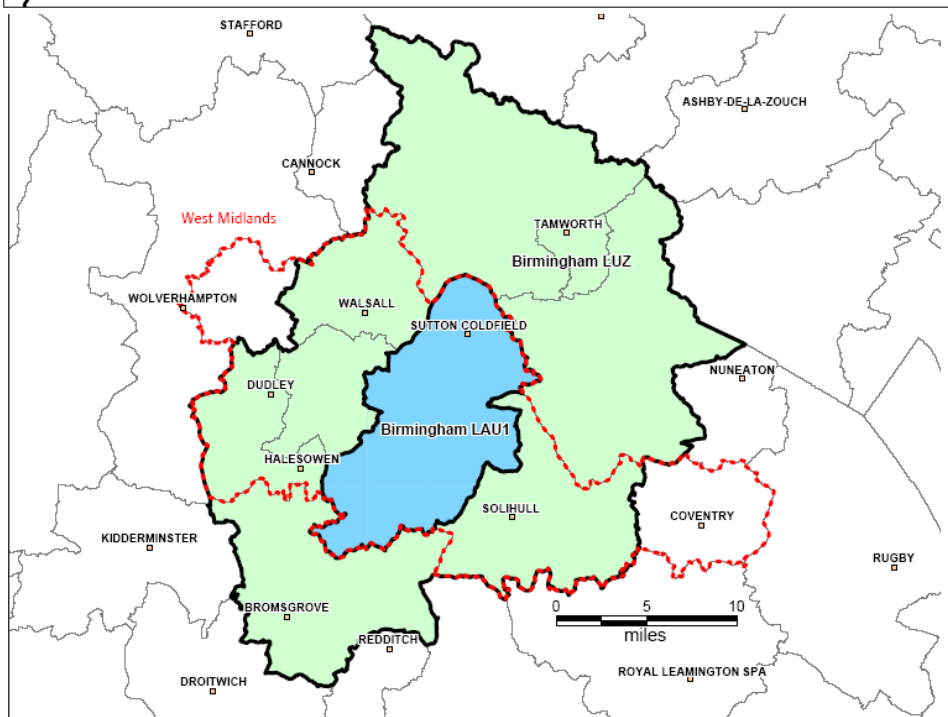
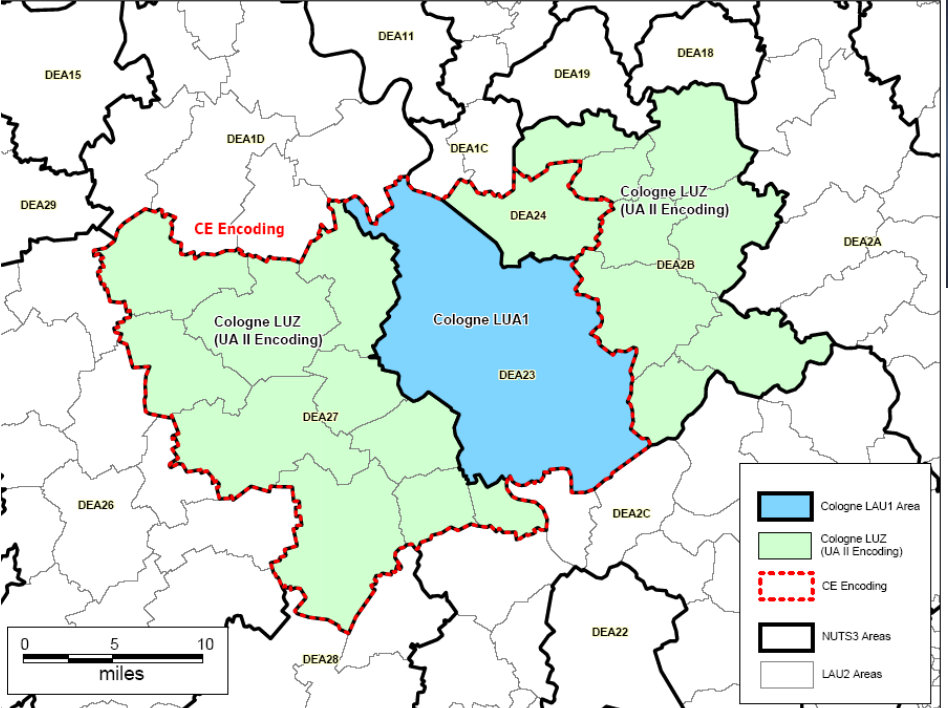
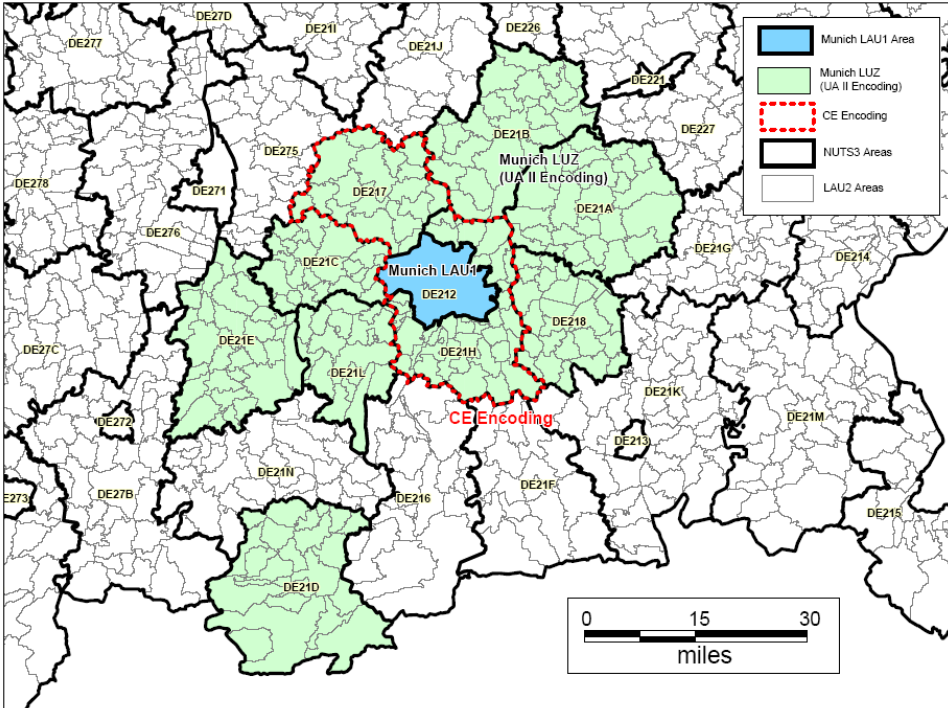


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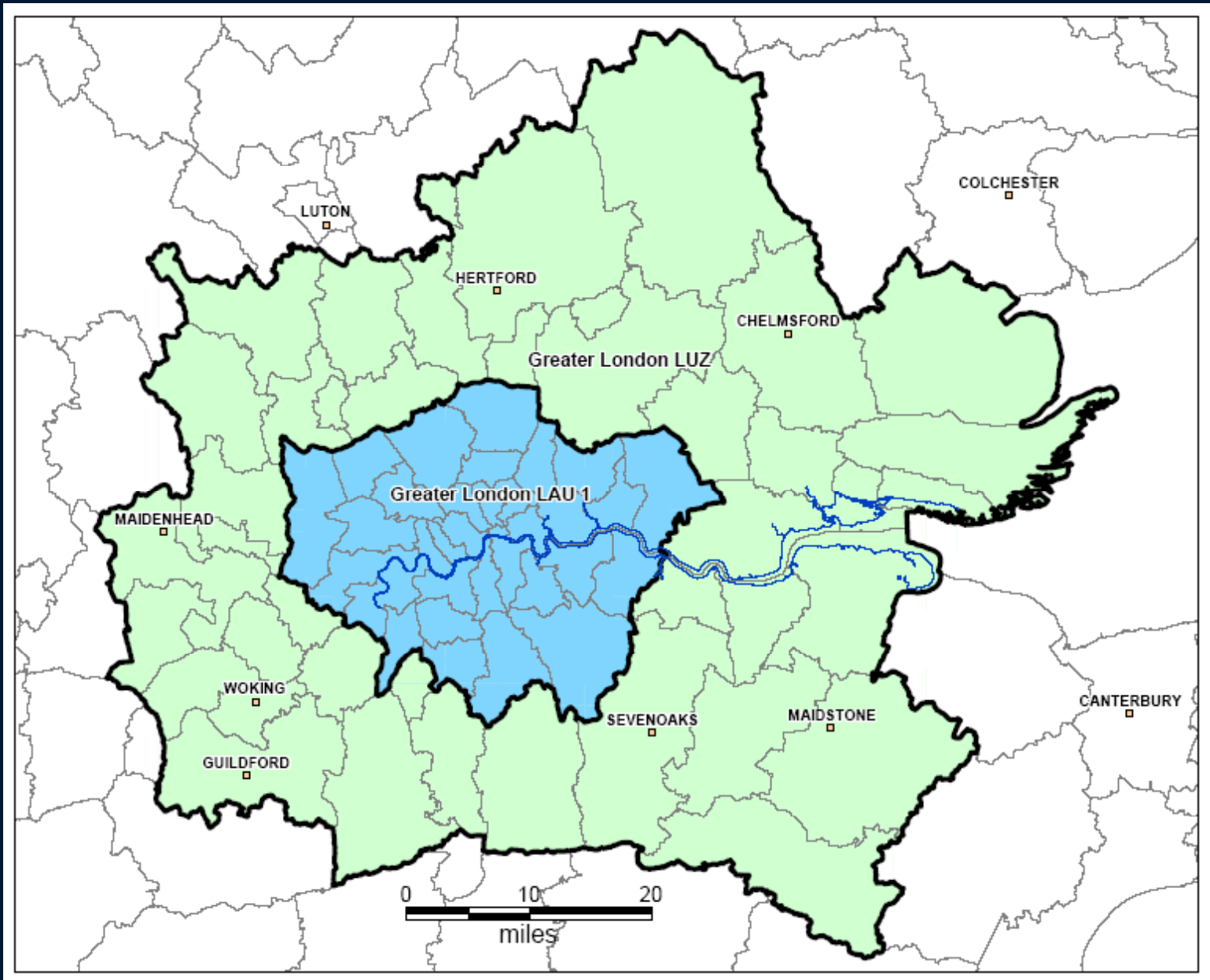


Where in the world is Frankfurt?





London according to Urban Audit




London according to GEMACA/ Paul Cheshire



How big is a city?

Areas of cities as defined by three suppliers (km²)

	Supplier 1	Supplier 2	Supplier 3
Birmingham	266	899	
Cologne	7,365	2,528	
Frankfurt	248	1,807	1,354
Lisbon	11,931	2,575	
Munich	311	1,557	3,029
Stuttgart	207	3,012	825



Summary: In Europe there is neither agreement, nor incontrovertible evidence, nor a generally accepted theoretical foundation, for what constitutes a valid measure of city performance

So what?



Why size matters

- The obvious
 - Number of employees, people, buildings, land, etc. vary with the size of the city
- The less obvious
 - What counts as ‘location’ varies
 - Is Heathrow ‘in London’?
 - Is Microsoft ‘in London’?
 - Productivity varies
 - value-added is greater in the Central Business District
 - Unemployment varies (such that no administrative definition compares adequately)
 - London’s unemployed are concentrated in the inner city
 - Paris unemployed are concentrated in the periphery
- Even affects what we mean by ‘growth’...

How definitions determine productivity

GVA per capita¹ in constant 1995 Euros: 1995 = 100

Greater London	157.4
Inner London	250.6
Inner London – West	461.9
Inner London – East	129.1
Outer London	99.4
South East	116

¹As proxy for productivity

How definitions determine growth

Paris (1990 census)		London (1991 census)	
City	2157	City of London	4
Petite couronne	3988	Inner London	2343
Grande couronne	4520	GLA	6394
Ile de France	10660	South East	16794
FUR (1971 boundaries)	10624		8757
FUR (1991 boundaries)	11418		12519
Change due to expansion	794		3762

‘Growth’ 1971-1991 = ‘density effect’ *plus* change due to expansion

Estimates of London’s growth will differ by up to 43 per cent depending on whether geographic expansion is included



3: Solutions

Geographical standardisation is possible, but has not happened

- USA/Canada: long-standing system (CMSA)
 - Harmonised across USA
 - City, metropolitan zone distinguished
 - ‘Functional’ definition since 1948
 - Urban core plus connected region
 - Now treated as ‘commuter belt’ but, NB, includes other measures of interconnectedness (1948: phone calls)
- Europe: new process of harmonisation *but*
 - Statistical boundaries not consistent
 - ‘Administrative’ prioritised over ‘functional’
 - NUTS system does not distinguish region type



Review of the state of play

- In general
 - Comparability is a premium because policy must be consistent
 - Conduct sensitivity analysis to identify risks
 - Always read the data
- Geography: a standard exists
 - See if we can define compatible European standard
 - If so, base policy on it
 - Prioritise research on it
 - But maintain ‘alternative definitions’
- Performance Indicators: less standardised than you think
 - Where an international standard exists, (eg ILO employment) enforce it
 - Maintain data and research on a variety of definitions but ‘campaign’ for standardisation
 - Adopt specific definitions for policy purposes on the basis of



Site and Extent
Are there city indicators
that do not depend on
city boundaries?

What can the banks tell us?

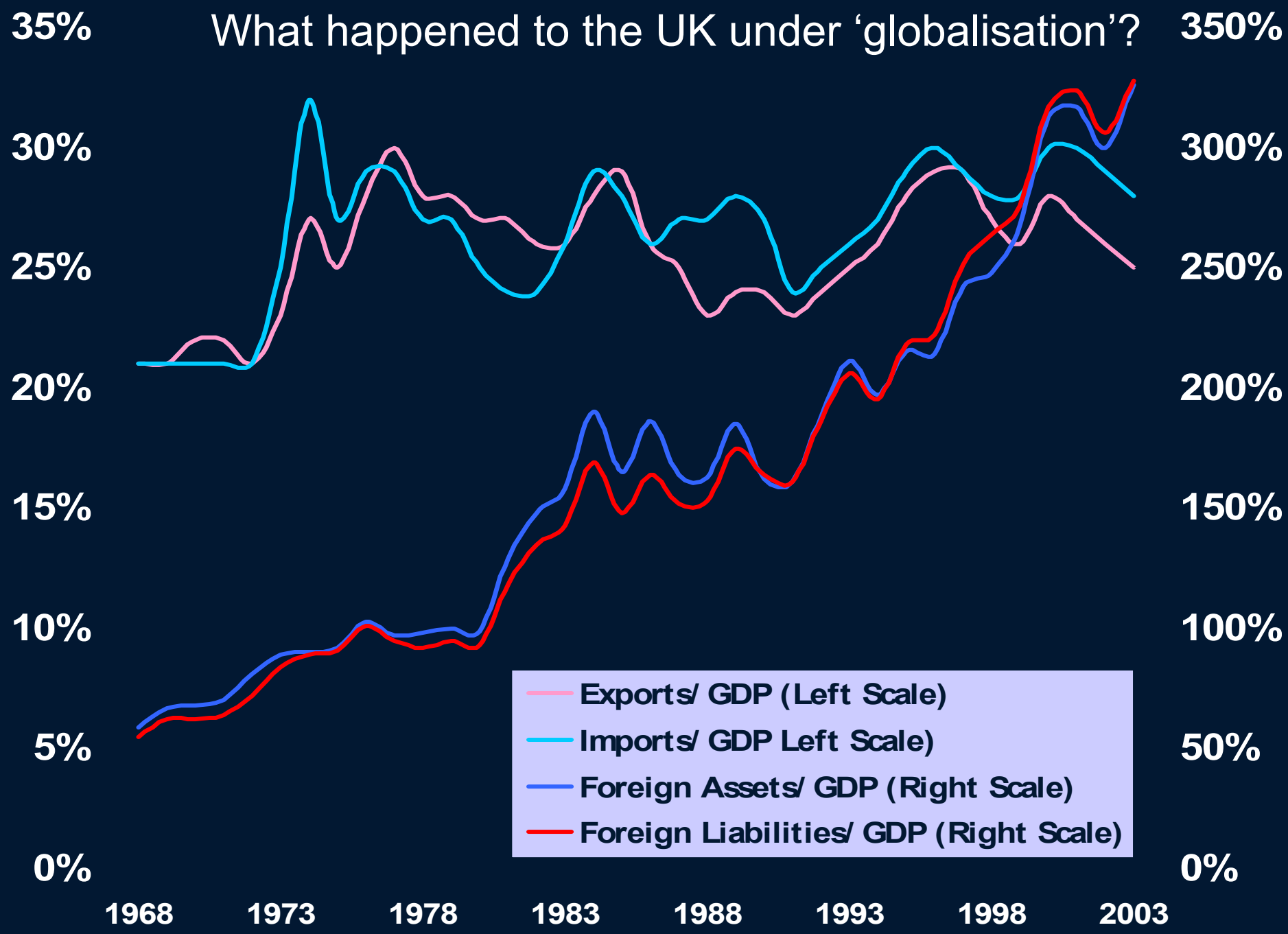
- 'Site' and 'situation' measures can be relatively independent of city definition: eg air traffic – we can (nearly) always say which 'city' an airport serves.
- Others may be
 - Measures of 'interconnectedness' eg newspaper mentions, branch headquarters
- Also functions that are concentrated in the Central Business District
 - Headquarters and local branch locations, but with caution (remember Microsoft)
 - The most highly concentrated functions of all are financial markets
- Hence: if London's specific competitive advantage is its financial function, we may be able to benchmark this with relative independence from 'geographic' issues



What is 'globalisation', actually?

- There are many different definitions of globalisation and some do not even agree it exists
- From the policy standpoint what matters is not what it is called, but what is happening
- We do know that London's growth is closely associated with the growth of the financial sector
- So it makes sense to study this on a city basis worldwide

What happened to the UK under 'globalisation'?





Point location, national function, global reach: the concept of 'Financial Capital'.

“By...1900 the tide had turned firmly in favour of national exchanges, and while some regional exchanges survive today, they are far less important.”

“The dominance of National Exchanges was made possible by better communications, but were also stimulated by the growing capital needs of large, less locally-based projects, including international ventures”

- Dimson, E, Paul Marsh and Mike Staunton (2002),
The Triumph of the Optimists. Princeton: PUP

Europe's financial capital in the making?

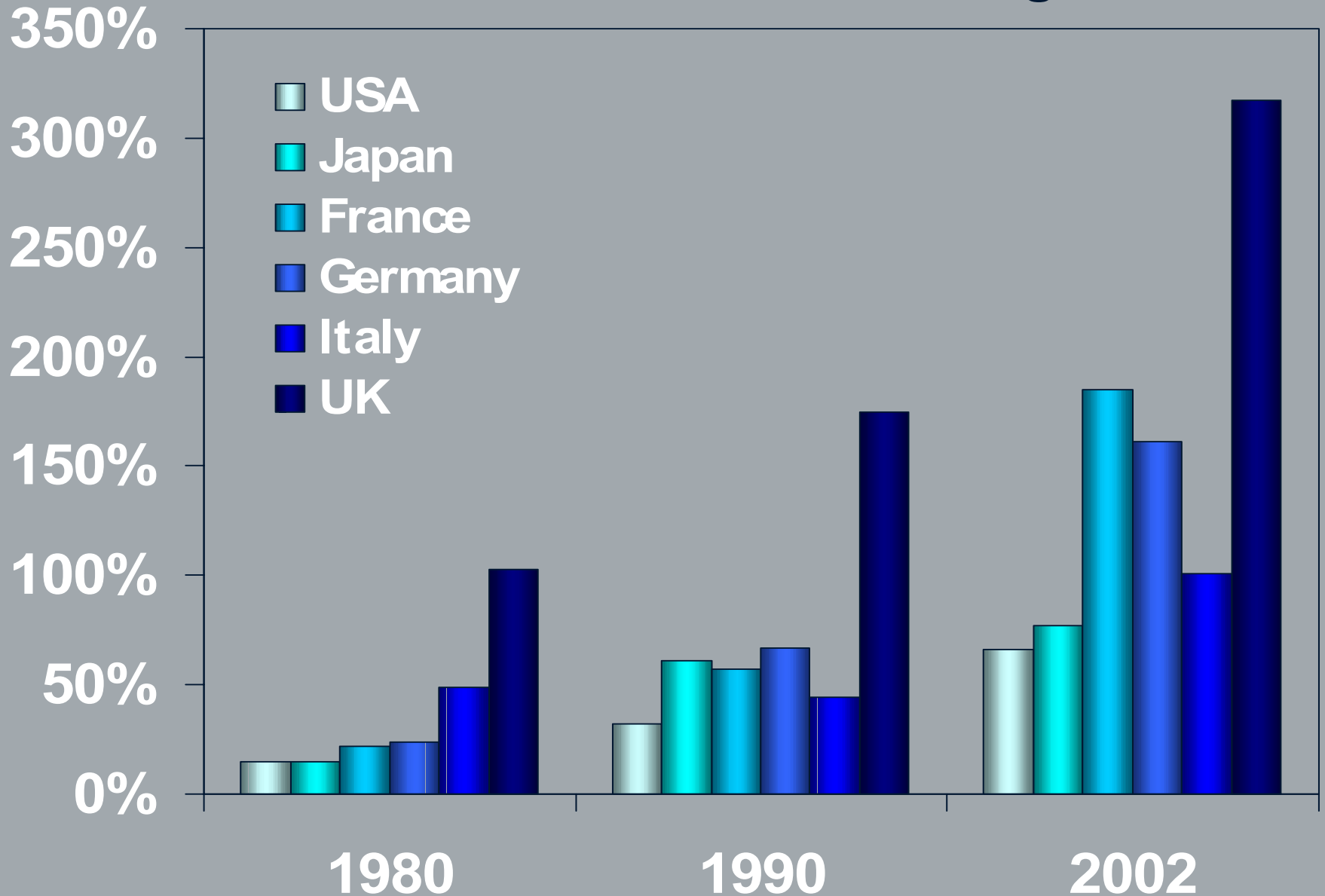
“The financial markets, the businesses and other organisations based in London have a substantial influence on activity throughout Europe.

“Other independent financial centres in Europe such as Frankfurt, Paris and Milan, can be viewed as having a similar relationship to London as cities such as Boston, San Francisco and Chicago have to New York.

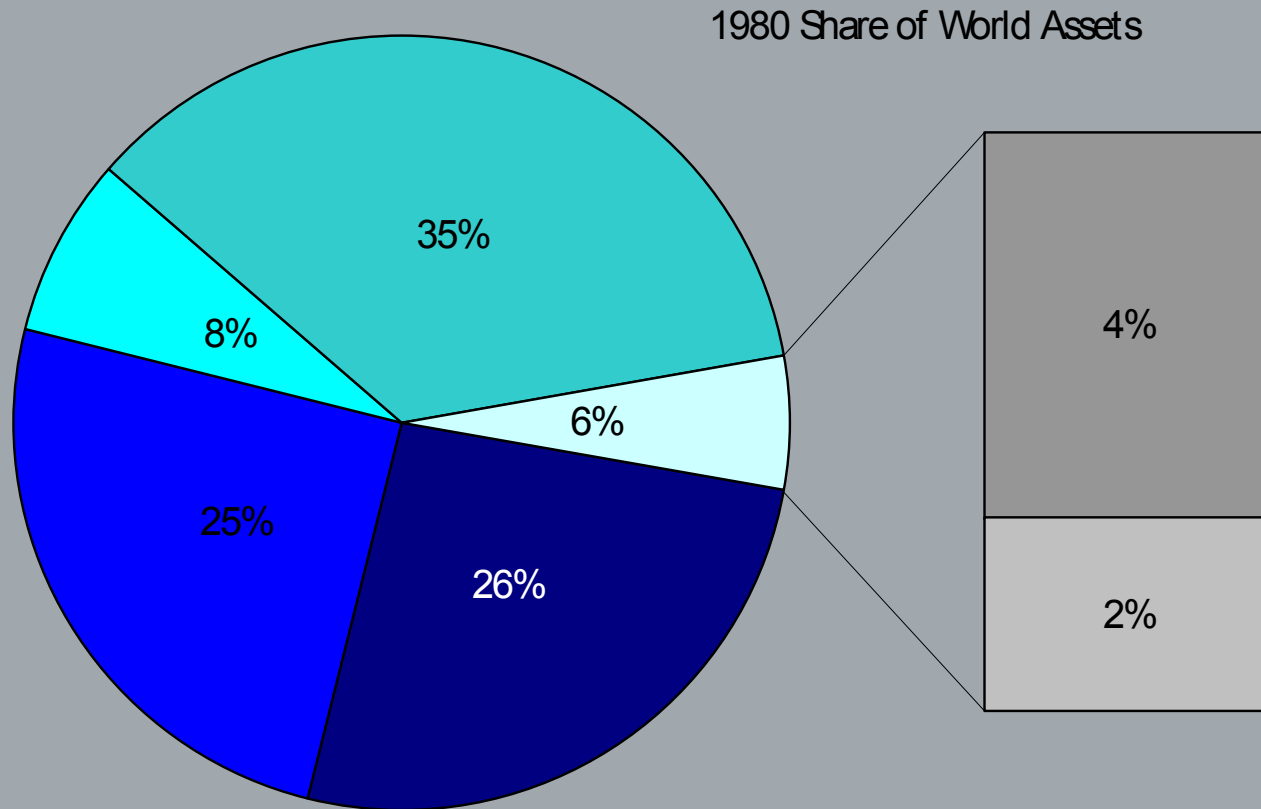
“In this respect in making comparisons between London and New York, it is valid to consider the size and scale of financial markets and activity in Europe as a whole, not just the UK, to take account of London's sphere of influence”

- IFSL(2004) *Financial Market Trends, Europe vs US: the growing global influence of London, Europe's financial capital.* London: IFSL

Changing structure of financial leadership: Assets as share of GDP, Big 6



A highly concentrated market: percent of world foreign assets in 1980



■ UK

■ Japan

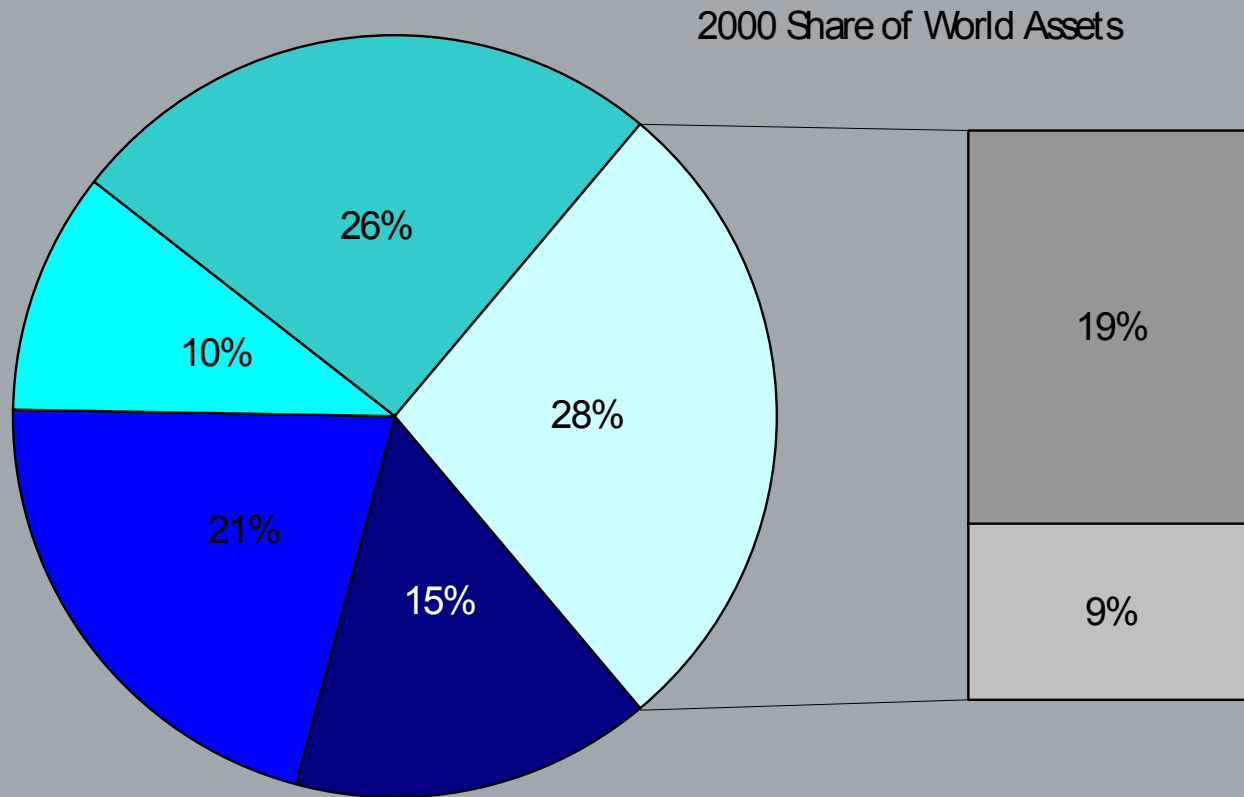
■ Remaining Advanced

■ Mainland Europe Big 3

■ USA

■ Developing

But a changing market: percent of world foreign assets in 2000



■ UK

■ Japan

■ Remaining Advanced

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■ Developing

Some cautions

- European integration can show up in the accounts as a rise in 'foreign assets', without necessarily reflect a growth in 'global reach'
- UK data on financial markets is frequently used as a proxy for London data (because markets are so concentrated) but there are independent financial centres eg Scotland

Where Europe is bigger than the US

Index for Europe where US=100

	1998	2003
Cross-border bank lending	279	748
Commercial banking assets	244	367
OTC derivatives average daily turnover	341	282
Foreign exchange trading average daily turnover	319	274
Marine and aviation insurance	307	n.a.
International Bond Issues	376	213
Foreign Equity Trading	197	164
High Net Worth Individuals	81	102

Where the US is bigger than Europe

Index for Europe where US=100

	1998	2003
Insurance global premiums	96	97
Exchange-traded derivatives	72	82
Domestic Bonds amounts	57	61
International Banking Revenue	37	59
Funds Under Management	51	60
Equity Market Turnover	57	60
Hedge Fund Assets under management	n.a.	32

Where is London's strength?

- London world strength is as an 'offshore banking' centre: for contracts and trade between two parties neither of which is necessarily UK based
 - Language services
 - Legal services
 - Accounting services
 - Currency exchange
- Its strengths lie in internationally traded instruments in which it has generally overwhelming dominance. For example,
 - 32 per cent of global foreign exchange market
 - 43 per cent of OTC derivative market;
 - 70 per cent of the secondary market in international bonds

London's share of key world markets

% share of world market	London	US	Japan	France	Germany
Cross-border bank lending	20	9	8	8	11
Foreign Equities turnover	43	31			3
Foreign exchange trading	31	19	8	3	5
Exchange-traded derivatives	6	26	2	3	12
OTC derivatives	43	24	3	10	3
International Bonds secondary market	70				
Hedge Fund Assets	14	74	1	1	

Note: London data is identical to UK data

Source: IFSL(2000) *International Financial Markets in the UK*.

London:IFSL

Trends in 'international' sectors of the financial market

International financial markets in the UK

£bn	1995	2003	% change
Cross-border bank lending	1,350	3,092	129
Foreign Equities turnover	627	1,470	134
Foreign exchange trading	464	753	62
Exchange-traded derivatives	201	507	152
OTC derivatives	74	643	769

Source: IFSL(2000) *International Financial Markets in the UK*.
London:IFSL