On a high

London is the very model of a global city—and thriving on it, says Emma Duncan. But there are threats to its future

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STEVE VARSANO, A New Yorker who sells private jets, moved from America to London a couple of years ago. His showroom, which is kitted out as a luxury aircraft interior—cream leather seats, snakeskin walls, mahogany trimmings—is on Hyde Park Corner.

To some, Hyde Park Corner is a noisy roundabout. To Mr Varsano, it is an unbeatable location. Fifteen years ago, he says, 70% of the world’s private jets were sold in America. These days, maybe 35-40% are. “Anybody that can afford a jet comes to London. The only bits of London they know are Belgravia, Knightsbridge and Mayfair [the areas that converge on Hyde Park
Corner]. They all have to stop at that light,” he says, pointing at the traffic light on the southern side of the roundabout. “As the car swings round, the guy in the back seat has to look into my showroom. I have the best window on four continents.”

Mr Varsano is not alone in his enthusiasm for the city. Over the past quarter-century, unprecedented numbers of foreigners have come to live, work and invest in the city. Largely as a result, London has had an astonishing period of growth that has survived the recession in Britain and the economic crisis in Europe. It feels unstoppable; but that’s how it felt a century ago, and it turned out not to be.

Out of darkness

London has been the centre of politics, administration, business and fun in Britain since the 11th century, but it was the Victorian age that made it great. The industrial revolution combined with the empire to supercharge London’s economy. Raw materials from the colonies were shipped into the docks and manufactured goods shipped out. The banking system which grew up in the City of London channelled private savings into productive enterprises all over the globe.

As London produced goods, so it sucked in people. Its population grew from 1m in 1800, when it was already by far the biggest city in Europe, to 6.5m in 1900. That huge expansion spawned a massive construction boom. Most of the city’s housing is Victorian, as are its great buildings. Confident in the greatness of their age, the Victorians had little time for the past. Between 1830 and 1901, 23 churches, 18 of them built by Sir Christopher Wren, the architect of St Paul’s Cathedral in the City, were demolished. Suburbs ate up the countryside: William Morris, a 19th-century artist, designer and thinker, called the place a “spreading sore”.

In 1939 its population hit 8.6m. By then the belief that London was at once too rich and too poor, as well as too powerful, had taken hold. So whole neighbourhoods were bulldozed to clear slums; a Green Belt was established to stop it spreading; the construction of offices in central London was, in effect, banned. Meanwhile war battered the city, driving out people and industry. Manufacturing started to decline. The docks, London’s core industry, were destroyed by container ships too deep for the river and by militant unions. The city went into a vicious cycle of decline. Schools emptied, crime rose and aspiring people left. By the late 1980s it had lost a quarter of its inhabitants.
Phoenix reborn

Then the population started rising again. Nobody really knows why. It may simply be that the economic factors that had caused it to shrink—the closure of the docks and the disappearance of manufacturing industry—had run their course, the policies designed to empty the place out had been abandoned and the gravitational pull of a great city had reasserted itself.

Cities are powerful networks. According to Geoffrey West, a physicist at the Santa Fe Institute who has looked into the maths of cities, there is an urban constant that holds good the world over: every doubling in the size of a city brings a 15-20% increase in wages, patent output, the employment of “supercreative” people, the efficiency of transport systems and many other good things associated with cities. There is a similar increase in crime and pollution, but the benefits of higher wages and greater opportunities evidently outweigh those disadvantages.

And London had a great deal going for it: international connections, a useful time zone and, by the 1980s, a free-market government. In 1986 the Big Bang, which deregulated the City’s financial services, set off a spate of growth that restored London to its place as one of the world’s great financial centres. Growth drew in foreigners, who have arrived in ever larger numbers, bringing money (sometimes), skills (often) and a willingness to work harder than the natives (usually).

Some come for jobs, some for sanctuary, some for fun. London has a creative buzz that makes it feel more like New York than Paris or Rome. It may be the result of the density of art colleges or the mildly anarchic street culture, but it has been heightened by the arrival of young foreigners escaping more conventional or oppressive societies, and coming to find themselves and each other. The art world, where language is no barrier to communication, is flourishing as never before.
The city has got better in duller ways, too. Devolution has improved its infrastructure. London’s mayorality, established in 2000, has far less power than those in, for instance, France or America. Yet the mayor can make a great deal of difference to transport, and has done so. Getting around the city is not quite as painful an experience as it was ten years ago.

The vicious cycle has turned virtuous, most visibly in education. Whereas private education in London was excellent, the state schools used to be particularly dreadful. But under both the previous and the current governments, money and effort have been concentrated on the capital. The academies programme, under which schools get more freedom and help from private-sector sponsors, has made most impact in London. The two most successful groups of academies, ARK and Harris, are there. The effects are showing up in the exam results.

Partly thanks to better education, fewer Britons are leaving the city. At the same time, foreigners are still coming and, because of recent immigrants’ high fertility, the birth rate is accelerating. So the population is rising fast (see chart 1).

As Mr West’s urban maths suggests, London’s contribution to the country’s economy has grown faster than its population. In 1997, the capital’s gross value added per person was one-and-a-half times that of Britain as a whole; by 2010 the ratio had risen to nearly one-and-three-quarters. Londoners are also better paid and better qualified than their compatriots. And although the economic crisis has hit financial services hard, the city as a whole has got off relatively lightly.

London subsidises the rest of the country by around £15 billion a year; only the south-east and east of the country, whose prosperity is largely derived from their proximity to London, are also in surplus. Altogether, the greater south-east contributes around £40 billion a year to the rest of the country’s finances.
Internationally, London also stands out. Whereas Britain has dropped down the GDP per person league to 7th, London is still 5th among cities in terms of GDP, and comes top or second in most of the rankings that include less measurable factors.

But London is not just a bunch of impressive numbers; it is also an astonishing human artefact. A city that a generation ago was on the skids has become a place where the world meets to study, work, create, invent, make friends and fall in love. It is Britain’s economic and cultural powerhouse, Europe’s only properly global city and a magnet for rich and poor, from anywhere and everywhere. Londoners know they are living through something extraordinary. Many novelists have tried to capture the sense of heightened experience that comes from living at the centre of the world—John Lanchester in “Capital”, Sebastian Faulks in “A Week in December”, Oliver Harris in “The Hollow Man”, for instance—with varying degrees of success. The uneasy excitement that pervades the city is hard to bottle.

It seems inconceivable that a gravitational pull as strong as London’s should weaken, but the city’s moment will, inevitably, pass. Its core industry, financial services, grew because of the accumulation of capital and trade flows. These days, capital is accumulating elsewhere, and the fastest-growing trade flows are not between the rich world and emerging countries but between different parts of the emerging world.

Yet London is not entirely at the mercy of external forces. Policies matter. Just as the British government unwittingly accelerated London’s decline after the second world war, so politicians today risk driving away some of the people on whom this city, and this country, depend for their future prosperity.
Immigrants

Hello, world

Growth has brought foreigners, and foreigners have brought growth

IN A STUDIO in the basement of an empty office block overlooking the Olympic Stadium, a group has assembled. The regular monthly gathering, entitled “Mere Coincidence?”, is organised by Fintan Friel, an Irish artist who likes to bring people together; and its title gestures nicely towards the billions of fruitful encounters between people from different parts of the globe that happen in London.

A Spanish artist is showing his paintings; a Bulgarian who sells handbags at Selfridges, a department store, admires them. An Iranian artist offers crudités. A South Korean slips past to get to work in the studio next door. He is said to be a robotics genius but keeps himself to himself. A Texan woman with blue hair sings a Mozart aria. She is studying cultural entrepreneurship at Goldsmiths College. Out of 52 people on her course, she says, there are four Britons, one of whom is called Abdullah.

London was invented by foreigners. The Romans established a colony in 43AD on an easily bridged bend in the Thames. Boudicca, leader of the Iceni tribe and an early opponent of immigration, burnt it to the ground 17 years later. But it grew back; and thereafter it became a magnet for foreigners, partly because it was a convenient trading post and partly because it lay safely off the coast of a continent where bad things happened horribly often.

The locals occasionally followed the Iceni in rising up against the latest arrivals: there were riots against Jews in the 13th century, the Flemish in the 14th, the Italians in the 15th and so on until the Notting Hill riots against West Indians in 1958, the most recent ostentatiously xenophobic disturbance. Yet those episodes may say more about Londoners’ tendency to riot than about their attitude to foreigners. Certainly, Voltaire thought it a pretty tolerant place in the 18th century:

Take a view of the Royal Exchange in London, a place more venerable than many courts of justice, where the representatives of all nations meet for the benefit of mankind. There the Jew, the Mahometan, and the Christian transact together, as though they all professed the same religion, and give the name of infidel to none but bankrupts.

But though London is used to immigration, the scale and nature since the mid-1990s has changed. Previous waves of immigrants—the Huguenots in the 17th century, the Jews at the end
of the 19th, the West Indians in the 1950s and 1960s and the South Asians in the 1970s and
1980s—tended to come from one particular region. Now they come from everywhere.

That diversity is hardly unique. More than a third of Londoners (up from 18% in 1987) were
born abroad, but so were more than a third of New Yorkers, and they, too, come from a great
variety of places. Yet whereas New York’s founding myth is of an immigrant city, London
regards itself as the home of an island kingdom’s monarchy (conveniently forgetting that most of
its dynasties were immigrants). And London’s high levels of immigration are both more recent
than New York’s and different in that its new arrivals are rich as well as poor.

The scale of recent immigration separates modern London not just from its past but also from the
rest of the country: two-fifths of Britain’s migrants live in London, and in the rest of Britain only
8% of the population are foreign-born. “I’m the most diverse person in the village,” notes a
Scottish company director who has recently moved to rural Sussex.

There are many reasons for the flood. Disruption—wars in Africa, Iraq and Afghanistan—and
repression drove some people from their homes. Liberation—the collapse of the Soviet Union
and the expansion of the EU—brought others. Growing wealth, especially in emerging markets,
brought still more.

London attracts foreigners partly because it lies off the coast of a continent where bad things
have happened horribly often.

History and geography drew them to London. The empire spread the English language around
the world, created the financial centre and attracted millions from Britain’s former colonies. A
tradition of political liberalism ensured a welcome to people seeking sanctuary from nasty
regimes. The time zone—conveniently positioned between America and Asia—encouraged the
growth of the financial-services sector.

The international nature of the City’s business in part explains the foreigners’ wealth. According
to a senior banker who has worked in both New York and London, “80% of the dealmakers in
Wall Street, and 90% of the deals they are doing, are American. In the City [of London] 65% of
the dealmakers are foreign and 90% of the deals have an international element.”

A trusted legal system, stable politics and an honest bureaucracy are especially valued by those
who have made money in countries that have none of these. “It is a huge source of comfort to our
clients that our contracts are drawn up under English law,” says Ileana Gratsos, a Greek-born,
London-based provider of luxury Greek villas to people all over the world. “Every time you sell
to a client, you’re selling a bit of England.”

Lower levels of regulation than in continental Europe have attracted entrepreneurs. There are
reckoned to be 300,000-400,000 French people in London, making it the sixth-biggest French
city. The tax policies of France’s new president, François Hollande, are expected to bring still
more. More than 4% of the residents of Kensington and Chelsea are now French, and the
borough has a French lycée.
London is more welcoming than New York to rich foreigners. The attractions of the “non-dom” regime, under which the taxman ignores the offshore earnings of those who are domiciled elsewhere, have been reduced by the imposition of a levy of £30,000 a year on those who have been resident for seven years, rising to £50,000 after 12 years’ residence; still, it retains its appeal for the very rich. Britain’s regulators are less nosy than America’s, and foreigners are generally free to buy its best properties, whereas in many Manhattan apartment blocks existing residents can veto new ones. London does not care where people’s money comes from, so long as there is plenty of it.

Previous waves of immigrants—West Indians and South Asians—tended to be poor, whereas recent arrivals are concentrated at the top as well as the bottom: there are more investment bankers and cleaners among the foreign-born than the local population. They are also younger and better educated. “The Impact of Recent Immigration on London”, a study by the London School of Economics (LSE) published in 2008, showed that among migrants who had arrived in the previous three years, 61% had graduate-level qualifications, against 30% of native Londoners, and only 7% had no qualifications at all, against 24% of natives. Even the children of the earlier, poorer, immigrants are generally doing well (see chart 2): Bangladeshis have just overtaken whites, and black Africans are nearly on a par with them.

A richer mix

All this has changed London utterly. It has created a new elite: foreigners, or recently naturalised Britons, dominate the best neighbourhoods and the best schools (see article). It has altered the sound of the streets: English is not the first language of 22% of Londoners and 42% of London children. It has given rise to “multicultural London English”, as the linguists call it—a mix of Cockney, Jamaican and other languages spoken by the young of all ethnic groups. It has transformed London’s food: a city once famous for its inedible cuisine now has better restaurants than Paris or Rome. It has led to the growth of Islamist extremism and the occasional assassination of Russians.

It has also redrawn London’s map. London has always been a city of villages, but now those villages are ethnic. The Koreans are in New Malden; the Portuguese in Stockwell; the Arabs in Bayswater; the Turks, Kurds and Turkish Cypriots in Haringey, Hackney and Islington; the Bangladeshis and Pakistanis in Tower Hamlets and Newham; the Indians in Southall and Wembley; the Jamaicans in Brixton; the Nigerians in Peckham; and so on.

David Goodhart, the director of Demos, a think-tank, argues that this has made London a fissile place. He points to studies that show lower levels of social cohesion in places with high levels of immigration. But last year’s riots were a picture of multiracial harmony, with black and white looting side by side. And immigration seems to have little impact on London’s wider politics.
Other things being equal, immigrants are more likely to vote Labour than the population as a whole, yet the rise in London’s migrant population did not stop the Tories’ Boris Johnson from taking the mayorality from Labour’s Ken Livingstone in 2008 and holding on to it earlier this year. At the same time the far-right British National Party, which might be expected to benefit from rising immigration, lost its only seat in London’s assembly.

Economically, London’s openness to the rest of the world seems to have had four broad effects. It has pushed up house prices (of which more later), and it has made the city less equal, more productive and more resilient.

The rise in inequality is due partly to the concentration of immigrants at both ends of the economic scale, but the LSE study suggests that the arrival of lots of poor people has also depressed wages. Rates of economic inactivity in London are also on the high side compared with the rest of Britain. That may be because some of the immigrants come from societies where female employment levels are low. Unemployment is also fairly high. That may be because the combination of low wages, expensive housing and state benefits create a poverty trap that discourages people from working.

The LSE study concluded that immigration had probably increased productivity because skilled migrants had relieved bottlenecks in the labour market. Various surveys of employers come to the predictable conclusion that migrants are better employees: they are more highly skilled, work harder and are prepared to do jobs that locals disdain. They may also be more innovative. In America they are disproportionately responsible for tech start-ups; similarly, they are over-represented in Silicon Roundabout, the tech hub east of the City, according to Harry Marr of GoCardless, a payments company, which “is about half white British blokes, the rest are mostly European, with one Japanese guy”. Max Nathan, a researcher at the LSE who has surveyed 7,400 companies in London, has found that firms set up or managed by migrants are more innovative. “There is a small but significant ‘diversity bonus’ for London,” he says.

(Study "The Knowledge", our interactive guide to London’s demography and economy)

Foreigners may well have helped to mitigate the impact of the recession on London. First, migrants make an economy flexible. When demand for labour falls, some of them leave: the Polish plumber, who became a fixture of the London building trade after his country’s accession to the EU, disappeared after the 2007-08 financial crisis. Second, foreigners’ money has fuelled demand for services, held up property prices and kept afloat development projects that would otherwise have folded.

Just completed, the Shard, a sliver of glass on the bank of the Thames south of the City, is the EU’s tallest building, but it nearly came a cropper. The developer, Irvine Sellar, a Londoner who made his first fortune in Carnaby Street in the 1960s, was going to finance the development with bank loans, which evaporated after the collapse of Lehman Brothers in 2008. Qatari investors stepped into the breach and now own 80% of the development. “I don’t think it would have been built without them,” says Mr Sellar. Similarly, Dubai’s port authority, DP World, is building Britain’s largest container port, London Gateway, on the estuary of the Thames. It is due to open next year, but had it been financed by debt, it would probably not have survived the crash.
Foreigners have not just transformed the city’s society and economy. They are also changing its shape.

**Wealth and poverty**

**The flows of prosperity**

**London’s distribution of wealth is shifting, again**

LANCE FORMAN DID not want the Olympics to come to London. He had just built a new factory for his family firm, the capital’s last fish smokery, in an industrial estate near Stratford in the East End, when he was given notice that his land was being compulsorily purchased to build the Olympic Park.

But now he is determined to make the best of the games. Next door to the grand new premises he built with his compensation on Fish Island, across the canal from the park, he is installing the Fish Island Riviera, a temporary pleasure garden where he hopes companies will entertain visiting bigwigs.

Two great flows of prosperity have shaped London: from the centre to the outskirts and from east to west. The East End, on the east side of the City, has been the victim of both. But those flows may be reversing. Inner London is now prospering at the expense of outer London, and even before the Olympics were thought of there were signs of prosperity creeping eastwards.

The docks brought work to the East End, but mostly of a casual, low-paid sort; they brought industry, but often of an unsalubrious sort. The prevailing winds are westerly, which drove the better-off westwards, upwind of the tanneries and the growing agglomeration of the unwashed. Thomas Cubitt, a great Victorian builder, blamed the flow for the failure of his development in Bloomsbury, near the British Museum:

The fact is, the place is become unfashionable. Everybody is running away to the west, and though my Houses be classed with the best that have ever been built anywhere; and the situation is really good and airy, yet I cannot get rid of the Houses.

The foreigners who arrived at the docks did not improve the tone of the area. They were often penniless, and when their finances improved they left, making way for the next wave of paupers. The building on the corner of Brick Lane and Fournier Street was built in 1743 as *La Neuve Eglise* by the Huguenots who fled religious persecution in France; in 1898 it became a synagogue for the Jews who fled pogroms in Russia and eastern Europe; and in 1976 it was transformed into a mosque for the Bangladeshis and Pakistanis who escaped poverty in South Asia.

As the better class of person moved west, so did the better class of industry. Between the two world wars American manufacturing companies set up in London, many along the Great West Road. The motor industry—Packard, Hudson Essex, Lincoln and Firestone Tyres—was there, as
were consumer-goods makers such as Gillette Razors, Currys (electricals) and Hoover. And after
the second world war, Heathrow helped pull growth westwards down the M4 corridor.

The closure of the docks, from the 1960s onwards, exacerbated poverty in the East End. So did
London’s other great economic flow, from the centre to the suburbs.

**The discreet charms of suburbia**

Unlike the French, for whom the bourgeois existence is the summit of civilisation, the English
dream of gardens. The suburbs made it possible for the middle classes to fulfil those longings
while working in town; and the railways made the suburbs possible. The Metropolitan Company,
which laid railways to the north and west of London, was also a property developer. The estates
it built between the first and second world wars ate up Middlesex, whose name survives only in
such relics as the eponymous County Cricket Club.

The immigrants, along with everybody else, moved out from the East End. The Huguenots went
to Kent and Essex (where one of their silk-weaving families, the Courtaulds, founded a textile
firm that survives to this day). Some of the Jews moved to Hendon and Edgware in north
London, others to Redbridge and Ilford, suburbs that lie uncertainly between the poverty of east
London and the prosperity of Essex.

The Asians have been following the Jews’ path north-eastwards. Jamiesha Majevadia, an MA
student at King’s College London whose family came from India via east Africa, was born in
Newham and raised in a small house inhabited by ten people. Her family moved to Ilford 17
years ago. “It was an up-and-coming area with a good primary school. We were one of the very
few Asian families there. It was a bit of a shock to the neighbours.” Many Asians have followed.
The Ilford Jewish Primary School is giving up its premises to Avanti Court, a Hindu school.

Both of those flows of prosperity—outwards and westwards—drained prosperity from the East
End. Travelling east on the Jubilee Line, life expectancy declines by nearly a year for each stop
between Westminster and Canning Town. It is a persistent pattern: maps produced by Charles
Booth, who logged the incidence of poverty in London in 1898-99, are remarkably similar to
those drawn up last year by Dr Douglas Noble of Queen Mary, London, to show diabetes risk.

Yet around the same time as London’s population stopped shrinking, inner London started to get
more prosperous. This showed up first in parts of central London next to rich areas. Notting Hill
Gate, for instance, previously shunned by the wealthy as disreputable and rather West Indian,
was taken up for the same reason by fashionable people in the 1980s. A quarter of a century later
the bankers had moved in and the fashionable had moved on. Gentrification spread: west from
Notting Hill towards Shepherd’s Bush and north into Queen’s Park and even Kilburn.
Nobody really knows what brought better-off people back into the centre of the city. It may have been double-income families: long commutes make suburban living difficult for families with two working parents. It may have been the foreigners: people from abroad generally do not share the rural yearnings that drive the English out of the city. It may have been education: the improvements seen in London as a whole are especially noticeable in inner London.

The rising prosperity of inner London is beginning to be reflected in the figures. When Alasdair Rae of the University of Sheffield compared government indices of multiple deprivation for 2004 and 2010, he found that most of the neighbourhoods that had got markedly poorer were in outer London, and most of those that had got markedly richer were in inner London (see map).

The rise of the east

Most of the places that had become better off were in central and west London. The East End is still, by a long stretch, the most deprived bit of the city. But even that may be beginning to change.

In 1981 Margaret Thatcher designated the Isle of Dogs, in Docklands, as an enterprise zone, removed it from local-authority control and persuaded Olympia & York (O&Y), a Canadian development company, to replicate the soulless business districts it had built in Toronto and Battery Park, New York. It became an island of prosperity in a sea of poverty, and is still expanding. Beyond Canary Wharf are the rather spectacular Royal Docks. Foreign money is bringing jobs and attention to them. The Excel Exhibition Centre, owned by Abu Dhabi, is due to host some Olympic events, and the Emirates Air Line, a cable car sponsored by the airline, is to provide a new river crossing there.

When Canary Wharf was built, there was virtually no public transport to Docklands, which is why O&Y went bust. Once the Docklands Light Railway and the Jubilee Line were extended, the area started to work. London Overground, which loops round the east of the city, has recently been improved. Stratford, with a seven-minute high-speed link to St Pancras in central London, as well as the Central Line, the Jubilee Line, London Overground and the DLR, is now the best-connected place in the city. And from 2018 Crossrail, a fast new underground train running from east to west, should start to nudge prosperity eastwards.

It will be working with the market, for high prices in the west have already pushed young and creative types in the same direction. Artists started to colonise the East End a long time ago, rather as they did Manhattan’s meatpacking district. But little money flowed into the area until
Damien Hirst, the commercial genius who invented Britart, made Hoxton, just north of the City, fashionable in the 1990s. Not long afterwards the techies started to arrive: London’s high-tech hub is nearby, on Silicon Roundabout at Old Street.

Farther east, Dalston already has a fashionable mix of poverty and cool. In its high street a 98p Shop (two steps downmarket of the Pound Shop) jostles with hip cafés: L’Atelier, where the fittings are for sale along with delicious goat’s cheese and spinach baskets, is asking £150 ($234) for a beaten-up anglepoise lamp. Next to the spruced-up London Overground station is a smart new housing development, Dalston Square.

Artists have been spreading all over the East End, helped by Bow Arts Trust, based in a former Carmelite convent just beside the Olympic Park, which accommodates around 400 artists in low-cost space nearby. The hipness of the east has started to show up in property prices. In central Hackney they have risen by 21% in the past two years, against 8% for London as a whole, according to Hometrack, a property-information company.

Whether the Olympics will help or hinder the flow of prosperity eastwards is uncertain (see article), but plans for developing higher education should certainly help. Although Mile End has a good university in Queen Mary, which was promoted to the Russell Group of leading universities this year, east London is still underprovided for. Now Birkbeck College, which offers degree-level education mostly to mature students, is building a new campus in Stratford that is due to open in 2013. University College London is in negotiations with Newham council and the Olympic legacy company to do the same. That should give a boost to employment, spending, property prices, culture and aspiration in the area.

East London’s population is also growing faster than that of the rest of the city, because it has lots of of recent immigrants, and they tend to have larger families. The area’s economy should benefit from that too—if the infrastructure can cope.

Thanks for the memory

When the Olympics are over

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ONE OF THE main arguments for bidding for the Olympic games—which are expected to cost £9.3 billion, against an original estimate of £2.4 billion, with Londoners contributing disproportionately—was that they would help revive a deprived part of the city. So once the litter has been swept up, what will London be left with?

There will be art, sports venues, a big office block, housing and a lot of space. The art is the ArcelorMittal Orbit, a red 115-metre sculpture of twisted steel (pictured) that looks like a sea-monster in pain. The venues are the Olympic Stadium, the velodrome and the aquatic centre (both rather beautiful), a handball arena and a venue for various Olympic and Paralympic events. The office block is the press and broadcasting centre. The housing is the athletes’ village. The space consists of 200 hectares that are no longer polluted, with some attractive landscaping and water features.

There are some promising signs. The London Legacy Development Corporation (LLDC), which is charged with making the Olympics legacy work for London, has got ahead of the game. Most of the venues have been allocated to responsible bodies to look after them. The athletes’ village is owned by Qatari Diar, the country’s property-investment fund, and Triathlon Homes. The LLDC seems determined to learn from Canary Wharf’s failure to connect with its neighbours: the park will have schools, clinics and roads linking it to existing communities around it. It expects soon to appoint a developer for the first tranche of homes to be built on the site. The east side of the park has got excellent transport and retail facilities, in the shape of Stratford station and the Westfield shopping centre.

But worries persist. There is not much call for velodromes or handball arenas in everyday life, so they will struggle to attract the revenues needed to maintain them. The stadium’s future is uncertain: after troubled negotiations, it will remain in public ownership, and it is not clear what it will be used for. The LLDC is considering two bids for the press and broadcasting centre, one for a high-tech centre, and one for a fashion centre; but the 15-20 minutes walk from the centre to Stratford station will make it hard to offload. The private-sector housebuilders who the LLDC hopes will fill the rest of the park tend to want to build high-value housing, and there is little local demand for that. Much of the park is therefore likely to remain unoccupied for a while; and a large empty space in the poorest bit of London, randomly interspersed with sports venues that may or may not be used, may prove uninviting.

Leaving a government agency in charge of the park may not be not the best way forward. Perhaps only a developer will have the single-minded determination to make a place like this work. The model of Canary Wharf, a sort of private-sector mini-state in which a single developer plans how the land will be used and builds the infrastructure and the buildings, may have drawbacks, but it has turned a swathe of previously derelict land on the Isle of Dogs into a hive of activity. East London could do with some of that.
Transport

Keep moving

Growth is straining London’s infrastructure

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“SHE’S 86,” SAYS Jim Carter, service-control manager of Edgware Road Tube station, fondly patting the elegant wood-and-metal panel in his signal box. Installed in 1926, it has 38 levers—red ones for signals, black ones for points “and the yellow to get you out of trouble”—that control the movement of 950 trains a day in and out of the station.

A hundred years ago London had the best infrastructure in the world. Its legacy is historically impressive but sometimes difficult to manage. Single-track Tube tunnels mean that breakdowns bring a line to a halt; curved tunnels and platforms, shaped by the Victorians’ inability to dig through the hardest rock, slow the system down.

For half a century after the second world war the city’s rail system mouldered. Making it work better was one of the main reasons why the Labour government created the post of mayor. It remains a serious bottleneck, so hosting the Olympics in the centre of the city was what Sir Humphrey, civil servant to the incompetent politician in the television comedy “Yes, Minister”, would have called a “brave” decision.
Still, having a mayor has improved London Underground, partly because both incumbents have managed to extract lots of money from government for it. Antiques like the Edgware Road signal box are being replaced by computerised control rooms. The Victoria, Jubilee and Central Lines have been upgraded already; the Northern is being done now. On upgraded lines trains are automatic, which means that they can run more often. On the Jubilee Line, for instance, numbers have gone up from 24 trains to 30 an hour at peak times and from 18 to 24 off-peak.

Since control over London Overground was handed to the mayor, that neglected stepchild of the national rail system has been provided with new carriages suitable for commuters—built for standing, with automatic doors—and spruced-up stations. It loops round eastern and southern London, parts of the city that have never before had decent public transport. Mr Johnson is now lobbying to get control of the suburban rail services, too. Mr Livingstone also got the go-ahead at last for Crossrail, which had been under discussion for four decades.

The Tube upgrade should increase the system’s capacity by 30% and Crossrail by a further 10%—which should both keep up with the population increase and ensure that travelling in London is not as painful as it used to be. But it won’t necessarily happen. Although Crossrail survived the budget cuts, the financing of the District, Circle and Hammersmith Line upgrades is not assured, and the Bakerloo and Piccadilly Line upgrades have been postponed indefinitely. Since those lines are nearly 50 years old, commuters who rely on them will suffer.

**Jam-packed**

Vehicles enter the Blackwall Tunnel, the main river crossing in east London, at a rate of around one a second in each direction. When somebody breaks down in the tunnel, which happens over 200 times a year, a 600-vehicle queue builds up within ten minutes. If the jam occurs at 7am, it takes around three hours to clear. One breakdown in three is caused by running out of fuel.

When Mr Livingstone was mayor he introduced a congestion charge on vehicles coming into central London, which initially cut such traffic by 20% and improved traffic flows. Since then, some streets have been given over to pedestrians, pavements have been widened and traffic-light phasing has been changed in favour of people on foot. All this has made the city a nicer place to wander round in but, along with higher traffic volumes, has increased congestion once more.

There are various ways of freeing up roads. Investment in public transport—of which there has been a great deal—is one. Cycles are another, though they are costly too. Londoners can pick up one of 8,300 “Boris bikes” from a rack of their choice and drop it back at another. It is cheap for users—the first half hour is free and the next hour costs £4 to encourage commuter use, after which charges rise sharply—but expensive for taxpayers. They have shelled out slightly more than half of the total cost of £120m, with
Barclays Bank, the sponsor, covering the rest. The average cost per bike is £14,460.

Technology can also ease congestion. Some 40% of London’s traffic lights can sense the length of the queues at each light of an intersection and adjust their timing accordingly. That technology, which is being progressively rolled out, allows 12% more vehicles to make use of the existing road network.

From this month, Transport for London is starting to charge utilities £2,500 a day for digging up the busiest roads. That should cut down on roadworks, and therefore on jams. But as the population grows, congestion is bound to get worse again.

One way of alleviating it is to bury roads. London already has a few underpasses. There could be more, on heavily used roads and interchanges such as Marylebone Road and Vauxhall Cross, but it is too expensive to be widely used. In America the Big Dig, to bury five miles of highway under Boston, which started in 1987, was expected to cost $2.6 billion. By the time it eventually opened 20 years later, it had cost $15 billion, which made it the country’s most expensive road project ever.

Another solution is more congestion charging. When he came to power, Mr Johnson abolished the western extension of the congestion-charging zone, reverting to the original area covering just the City and the West End. That was a mistake. If Londoners are not to spend even more of their lives fuming in traffic jams, congestion charging will have to spread.

Fear of flying

But the politics of roads are nothing to the politics of airports. The argument over how to improve London’s air links has been running for half a century. Various plans to expand capacity have been approved by (Labour) governments, only to be cancelled by their (Tory) successors. As a result, no new runway has been built in the south-east since the second world war.

The problem is not simply one of airport capacity. Stansted, to the north-east of the city, is half-empty. The problem is hub capacity. Airlines want to fly into places that other airlines use so they can pick up more passengers. That means having a single hub. A measure of the value that airlines place on flying into the hub is the price of landing slots. “Zero against £25m [the price of a landing slot at Heathrow] says that connectivity at Gatwick is not as good as connectivity at Heathrow,” says Colin Matthews, BAA’s chief executive.

Sceptics point out that New York does not have a dominant hub. But New York is hardly a model for London to follow. The only airport experience worse than arriving at Heathrow is arriving at JFK. And New York is not as dependent on foreign business as London is. Companies that operate internationally need direct flights to destinations all over the world. The richer that emerging countries get, the more important this will become. Good connections to capitals are not enough: the economic action is increasingly in second-tier cities.

Heathrow has some flights to new emerging-market destinations—Hyderabad, Bangalore and Guangzhou, for instance—but it is, essentially, full. To make room for new destinations, it has to
bump off old ones. Losing point-to-point holiday destinations has little impact on the wider economy, but other British destinations have borne the brunt. Five years ago there were 124 flights a week from Edinburgh to Heathrow, 115 from Glasgow and 54 from Belfast, according to Innovata, a company that collects and analyses data for the airline business; now there are 109, 60 and 42. That has implications not just for the economy of the rest of the United Kingdom but also for its relationship to a capital from which it feels increasingly disconnected.

Congestion at Heathrow also affects punctuality: more planes are over 45 minutes late from there than from Schiphol, Charles de Gaulle or Frankfurt. And the connections between London’s European rivals and emerging countries are improving. Schiphol had 103 flights a week to the BRIC countries five years ago and has 129 now; Heathrow, 300 and 297. Dubai, Singapore and Hong Kong, London’s main rivals a financial centre, all have spanking new airports with plenty of capacity. V. Shankar, Standard Chartered bank’s chief executive for Europe, the Middle East, Africa and the Americas, is doing his job from Dubai, whereas his predecessors worked out of London. That’s partly because the bank’s business is increasingly in Asia, but also because of the infrastructure. “Dubai’s got a fantastic airport and a fantastic airline. The most important things for me are connectivity and communications.”

BAA wants to solve the problem by building a third runway at Heathrow. British Airways and all business groups support the idea. Londoners do not. Planes start roaring in over the city at 4.50am, and Londoners suffer more aircraft noise than the inhabitants of any other large city.

The previous, Labour, government, persuaded by the business case, approved the runway. The Conservative-Lib Dem coalition, influenced by Tory votes (the transport minister’s constituency is under the flight path) and Lib Dem environmentalism, cancelled it. Opposition to the third runway is one of the few subjects on which the coalition partners agree, though some Tories are nervous about antagonising the businesspeople who finance them.

Mr Johnson wants a new airport in the Thames estuary, to the east of London. Foster Partners, a firm of architects, has produced a plan for one which it says would cost £50 billion, including transport links. But unlike the third runway, for which BAA and its banks would happily fork out, the estuary airport would be hard to finance. According to Michael Redican, managing director of global credit structuring at Deutsche Bank, money could be raised to build an estuary airport only if the government closed Heathrow. He reckons the cost of compensation to BA, bondholders and airlines would be around £20 billion, the transport links another £20 billion-30 billion and power supply a further £10 billion-15 billion. So even if the private sector were prepared to put up the £30 billion he thinks the airport itself would cost, the government would have to cough up somewhere in the region of £60 billion. In a country where up to now airports have been financed by the private sector, and in straitened times, that seems unlikely to happen.

The government is conducting a review of airport capacity, and says that all options are under consideration—except the only one that seems feasible and useful, the third runway. That seems unwise. Londoners deserve their sleep, but it should be possible to placate them by reducing early morning flights. Without a hub airport that can expand, it will be harder for London to remain as connected as it needs to be to the rest of the world, and to its hinterland.
Housing: Home is where the money is

High house prices make life difficult for Londoners and threaten the city’s prosperity

A DOOR BESIDE a solicitor’s office on Plashet Road in West Ham, east of the Olympic Park, leads down a narrow alley into a back garden that has three roughly constructed brick sheds in it. One seems empty; each of the other two is perhaps 15 feet (5 metres) square, divided into two tiny bedrooms and a small living and cooking space, with a toilet and shower in a cupboard. Shahid Ali, a Pakistani labourer, shares one of these with two other workers. It has no electricity and there are holes in the floor where the tiles are broken.

The other shed is home to Farzana Ahmed, an MBA student from Lahore, who lives there with her husband and two children—and, temporarily, her cousin and cousin’s husband. Outside her front door there is a heap of builder’s rubbish and a circle of armchairs and sofas under a pink, rain-soaked awning, which she says was her landlord’s attempt to create a shisha (hookah) lounge. Her house is neat; on top of the small television there are plastic flowers and two Mother’s Day cards, beautifully drawn and written in English. Mrs Ahmed’s family is paying £700 a month for their shed, Mr Ali and his housemates £500.

Aerial shots of some parts of the capital show one or two of these sheds in almost every garden. They are the consequence of the high cost of housing, which is the result of rising demand and constrained supply.

Demand for London property is driven by a rising population and foreign money. According to Liam Bailey, head of research at Knight Frank, an upmarket estate agent, the company sold prime London property to people of 30 different nationalities in 2006 and 64 in 2011. The top end of the market is dominated by buyers from the former Soviet Union. The world’s most expensive flat—the penthouse at Number One Hyde Park, in Knightsbridge—was sold in April 2011 for £136m to Rinat Akhmetov, a Ukrainian. The fastest growth in demand is coming from
Asia (see chart 3). London estate agents tour the continent, selling flats that have not yet been built. They even hawk their projects in Shanghai, though capital controls might be expected to limit the market in China. “These are very wealthy people,” says Knight Frank’s Neil Batty. “A lot of them have money offshore.”

Whereas locals prefer period properties, foreigners tend to go for new stuff, in Chelsea, Knightsbridge, Belgravia, Mayfair and Docklands (not much fun, but flats there let easily because of its proximity to the City). Foreign money is financing new developments, such as Qatar Diar’s £1 billion redevelopment of Chelsea Barracks, which are bought largely by foreigners. But there is still plenty of overlap between the two markets—European bankers buy the 19th-century houses in Kensington that the locals can no longer afford—so foreign demand pushes up prices.

Foreigners want to buy property in London not just because they want to live there, but also because they regard it as a safe investment. According to Yolande Barnes, head of residential research for Savills, another high-end estate agency, movements in London property are closely aligned with those in the price of gold. The past year has seen more buyers from Greece and the Arab world. And since 2008 the fall in the pound against emerging-market currencies has given London an extra boost.

The soaring demand for London properties is being met by scant new supply. London’s population is rising at around 100,000 a year. Last year 17,977 properties were completed. With an average household size in Britain of 2.3 people, that is less than half the number needed for people living in the city, never mind people buying them as second homes.
The conservation lobby is partly responsible. Its strength derives in part from the architectural barbarism of the post-war years, when Victorian terraces were bulldozed and replaced with brutalist blocks. Enthusiastic “listing” (which confers broad protection) of buildings, even on old industrial sites, constrains development. Battersea power station, for instance, a moderately interesting electricity-generating station built between the 1930s and 1950s, has blighted 16 hectares of riverbank opposite Chelsea for three decades. It cannot be demolished, yet incorporating it in a development raises the cost. The fourth redevelopment plan for the site collapsed last year when the owners went bust, and the administrators solicited bids for yet another one. The current preferred bid comes from a couple of Malaysian companies, but Londoners are not holding their breath.

The government’s new emphasis on localism also makes development difficult. The mayor is eager to increase the supply of housing, but whereas he has real power over transport, in housing he has little more than the bully pulpit. Power lies with the boroughs, and residents tend to be of the not-in-my-backyard persuasion. Marc Vlessing, a developer whose company, Pocket, builds homes for first-time buyers, recalls discussing a rejected application for planning permission with a German and an Italian colleague. “The German said it would have got through in Germany because the city plan calls for more housing. The Italian said it would have got through in Italy because they would have bribed somebody.”

But perhaps the biggest constraint on development in London is the Green Belt. Established after the war, it runs (with perforations) all around London, to a depth of up to 50 miles, and bans almost all building on half a million hectares of land around the city. This has not stopped growth, but it has pushed it into the greater south-east, thus spoiling the countryside across a bigger area. It has also raised the cost of housing and forced workers to travel farther. Commuting costs in London are now higher than in any other rich-world capital.

The combination of increased demand and constraints on supply has pushed up the ratio of average house prices to average earnings in the city from 4.8 in 1990 to 7.6 now. With the price of the average home in London at £295,000, the average salary £38,600 and the multiple of salary that mortgage companies are prepared to offer around four, the average London worker can buy half an average home. At the bottom end of the market, that means sheds with beds; at the top end, “iceberg houses”, the term for properties whose owners have constructed great edifices below ground to get as much living space as possible on their exorbitant little patch.

Foreigners buying for investment, along with the difficulty of getting mortgages these days, have boosted the private rented sector. According to Hometrack, the property information service, privately rented property now makes up 26% of London’s housing stock, compared with 15% ten years ago. Because the best property is regarded as the safest, yields are lowest at the top end of the market: a three-bedroom house in Chelsea yields around 2.6%, whereas a one-bedroom flat in Dagenham produces 9%.
High housing costs make London an expensive city to live in. Although it is not at the top of the cost-of-living league, it is pricier than the European competition outside Switzerland and Denmark. Carlos Bhola, the founder of Vonage, an innovative phone company, and a serial entrepreneur, thinks that Berlin rather than London will be Europe’s tech hub, partly because London is so expensive.

The high cost of housing has become a political issue. It has been pushing up the government’s bill for housing benefit, the rent it pays on behalf of people who are out of work or on low pay. So now the benefit is being capped, which will drive claimants out of more expensive areas. The borough of Westminster is expecting a large exodus. Even Newham council, in one of the poorest parts of London, is trying to ship some of its housing-benefit claimants out of the city, arguing that it cannot find places within the borough for them at the new rates.

Foreign billionaire owners, too, have raised political hackles. Many rich foreigners buy second—or third, or fourth—homes in London and visit for just a few weeks a year. London’s smarter streets are dark at night, with the lights on only in the basements where the housekeepers live. Belgravia and Kensington are quieter places than they were a quarter-century ago—though probably not much quieter than they were a century ago, when their country-squire owners stayed in them only during the “season”.

The politicians do not take so sanguine a view. Rich foreigners do not pay much tax in Britain. The council tax (a levy on residential property) is low and does not rise in line with the value of the property. In Kensington and Chelsea, for instance, which has mansions in the south of the borough and deprivation in the north, the annual council tax ranges from £717 to a modest £2,151. And until recently many foreign purchasers were using a loophole in the law that let them avoid paying stamp duty (a tax on property purchases) if the place was bought by a company rather than an individual. So in March the government imposed a 15% stamp duty on properties bought through companies and raised the rates on higher-value purchases by individuals.

But such measures will not improve matters for ordinary people. For them, the government has come up with a scheme to help first-time buyers get mortgages on newly built properties, but that looks more like a subsidy for the construction industry than a serious attempt to alleviate the housing shortage.
Sir Robin Wales, the mayor of Newham, where Ms Ahmed lives, is planning to license private landlords in his borough to stop them packing in students and labourers by the dozen. That may help get rid of the sheds with beds, but it will reduce, rather than increase, the supply of housing. Darra Singh, a former chief executive of two councils and of JobCentre Plus, the government’s employment agency, head of the government’s investigation into the causes of the London riots last year, partner in Ernst & Young and honoured by the queen with the Order of the British Empire, points out that were it not for cheap, temporary accommodation his father would not have been able to come to Britain and he himself would probably be in India.

There are only two ways of increasing London’s housing supply: building up or building out. The first is being done, up to a point, thanks to the influence of Lord Rogers, an architect and head of the Urban Task Force set up by a Labour government in 1998. High-rise building, which fell out of favour after the blight of brutalist 1960s council estates, is seeing a revival. But London is already the second most densely populated city in Europe, and much of its charm lies in its low-rise terraces. The government has the power to impose towers on reluctant councils, but there is little appetite for turning London into Hong Kong.

That leaves building outwards. Taking a mile off the Green Belt all around London would release around 25,000 hectares, the equivalent of a sixth of London’s area—far more than would be needed to make a huge difference to housing availability. And the vista across the Green Belt on the outskirts of Ilford, where scrubby fields skirt an industrial estate, suggests that it might not be an environmental disaster.

The other way of getting at the problem would be to reduce demand for London property. Discouraging people from buying it as second homes would make it more affordable for those who want to live and work in the city. One way of doing that would be to make the council tax more progressive, and raise its level. That would anyway be a good idea, because taxes on wealth hurt enterprise less than taxes on income. Another way would be to discourage foreigners, the principal purchasers of second homes, from coming to London at all. That would be a rotten idea, for many reasons.
Riotous behaviour: It’s a London thing

GWEN MCILREE, THE 70-year-old widow of a carpenter, used to live in London Road, Croydon. In August last year her house was burned down and all her possessions, including her husband’s ashes, were lost. She is sad for herself, but sadder for Croydon. “I moved here nearly 40 years ago. It was a nice area. Why is there graffiti allowed all over the place? Nobody seems to care.”

The riots took everybody by surprise. They were not, it seemed, political or anti-police, but mainly about looting. Though they spread beyond the city, about two-thirds of the action was in London.

Many explanations are offered. One set revolves around social conditions. Some people blame the politicians, claiming that the scandal over their expenses undermined public morality. Some blame the bankers, arguing that if people feel society is unfair they won’t play by its rules. David Lammy, Tottenham’s MP, thinks that “our housing estates have gone from being working-class communities to being workless-class communities with generations dependent on welfare and a significant minority on crime.” The government-appointed panel that looked into the causes of the riots emphasised the effect of troubled families and the need for building character, “including self-discipline, application, the ability to defer gratification and resilience in recovering from setbacks”.

A second explanation focuses on policing. “The police were just standing there,” says Bushra Ahmed, who watched the Croydon launderette her father bought 24 years ago burn down. The report of the Home Affairs Select Committee agreed: “The absence of a police presence or the sight of police officers apparently standing by and allowing criminal behaviour to take place was distressing for those whose homes and businesses were being attacked.” The police admit that they should have got more officers onto the streets more quickly.

A third explanation points to technology. BlackBerry Messenger, a service that allows users to broadcast messages free to all their contacts, was used by rioters to summon their friends to join looting sprees. Just as in the Arab spring, the security forces, which used to have superior communications, found that technology has shifted the balance in favour of the street.
A fourth explanation fingers the physical environment. Tim Stonor of Space Syntax, an urban-design consultancy, points out that the vast majority of the riots took place within a five-minute walk of one of the depressing post-war housing estates which councils are now pulling down.

The fifth explanation blames London itself. “Rioting is something that London does,” says Tony Travers, director of LSE London, a research centre at the LSE. “There were riots in 1809, 1816, 1830, 1866, 1886, and so on. Given that the population has increased by one-and-a-half million in the past 25 years, and two-and-a-half million people in this city were born in other countries, some of which are at war with each other, it is a miracle the place is as peaceful as it is.”

**London’s future: Global or bust**

**The biggest threat to London’s future is its relationship with its hinterland**

This newspaper’s view that Britain benefits from having a powerful, globalised capital has long been controversial, especially outside the city. “What is to be the fate of the great wen [boil] of all? The monster called, by the silly coxcombs of the press, ‘the metropolis of the empire’?” asked William Cobbett in his “Rural Rides” of 1830.

The belief that London is a source of corruption is one reason for wanting to constrain its growth. The city’s dominance is another. “It is no good state of a body to have a fat head, thin guts and lean members,” wrote Thomas Roe in 1641. The Royal Commission on the Distribution of the Industrial Population, whose 1940 report formed the basis of the post-war decentralisation policies that helped tip London into a half-century of decline, took a similar view: “The attraction to the Metropolis of the best industrial, financial, commercial and general ability” represented “a serious drain on the rest of the country”—though, as Stephen Inwood points out in his excellent book, “A History of London”, “it was unable to offer evidence that London’s industry had grown at the expense of other regions.”

The misapprehension that lay behind those decentralisation policies—that there is a fixed amount of economic activity in the country that can be shunted around without affecting its level—has proved persistent. It is evident in the decision to ship parts of the BBC from London to Salford, in north-west England. The BBC has benefited from being part of the broadcasting cluster in London, and that cluster in turn benefits from the BBC’s presence. Both will suffer from the move, though the BBC will probably feel it more. One of the bits to be shunted north was its breakfast show, which lost its best presenter as a result and struggles to persuade celebrities to trek up to Salford.
But the greatest danger comes from policies directed against various *bêtes noires* which are overrepresented in London. Three groups of people are particularly unpopular in Britain at the moment—rich people, bankers and immigrants. Since London depends on them for its prosperity, policies aimed at making life harder for them will hit the capital.

The tax system has become somewhat less friendly to well-off people since the financial crisis. The top income-tax rate went up to 50% in 2010, and though it is due to come down again in April next year, the new rate will be 45%, not 40% as before. Taxes on the rich are pretty steep, for those who pay them (see chart 4). For non-doms the levy has made life more expensive and the taxman has got tougher on dual-contract arrangements, whereby employers pay non-doms partly in and partly outside Britain.

The rich complain not just about the specifics of the tax regime but also about its uncertainty. Changes in top tax rates, non-dom levies and the like seem capricious. People with a lot of money like to plan, and uncertainty makes planning difficult.

Nor do rich people feel properly appreciated. “I don’t meet anybody today who genuinely believes that this country values wealth-creation,” says Apurv Bagri, the Indian-born president and CEO of Meddist, a metals-trading company, as well as deputy chairman of the London Business School and chairman of the Royal Parks. “The rhetoric in the UK is a bit like the India I left in the 1980s,” says V. Shankar of Standard Chartered bank. “You’ve forgotten Margaret Thatcher, and you’re taking a leaf out of Indira Gandhi’s book.”

The three groups of people who are particularly unpopular in Britain—the rich, bankers and immigrants—are those on whom London depends

Hostility to the banks is not surprising. They contributed to the economic crisis, and propping them up has cost many billions. The regulatory regime for them has tightened since the financial crisis, and more regulation is on its way from both Westminster and Brussels. The European Parliament, for instance, is proposing to introduce legislation to limit bankers’ bonuses to 100% of basic salary. Bank bosses say this will make banks less efficient. They maintain that paying their employees through bonuses helps link pay to performance, reduces the cost of firing people and holds down their fixed costs.

Other financial-sector companies are also watching impending regulations warily. Tidjiane Thiam, the chief executive of Prudential, an insurance company, says the Solvency II European regulations for the insurance industry, due to be introduced in 2014, will hamper the company.
outside the EU, where the Pru makes 88% of its profits. If they are implemented in their current form, he says, “we’ll have to leave London. This is not sabre-rattling.” The Pru employs only a few hundred people in London, but “the number of law firms, accountants and banks that would lose our business is enormous. We would be the first but by no means the last. It would be like a dam breaking.”

Attitudes to foreigners are hardening, too. Britons are now more hostile to immigration than people in any other wealthy country (see chart 5). This shapes policy and harms the economy. Getting a visa for Britain is more expensive and time-consuming than getting one for most rich countries. Britain is not a member of the Schengen accord, which allows visa-free travel throughout the EU. As a result, Chinese visitors—who will make up an ever-larger share of the global tourism business—often skip Britain altogether.

London, though, takes a warmer view of foreigners than does the rest of the country, and this is not just because migrants are naturally in favour of migration. Even British-born whites in London are friendlier towards migrants than those elsewhere in the country. But migration policy is not determined in London; and the government has promised to reduce net migration to “tens of thousands a year” by the next election, due in three years’ time. Given that last year the figure was 252,000, this is a tall order. The government’s main focus is on students. The number of colleges that can sponsor international students has been reduced, as has students’ freedom to do paid work during and after their time at college. This will make studying in Britain unaffordable for many—thereby undermining an industry worth about £15 billion a year.

Getting visas for professionals, too, is harder. Dena McCallum of Eden McCallum, a firm that hires freelance management consultants, says that in the past year her firm has had to turn away 15 consultants from America and Asia—people who used to work for firms like Bain and McKinsey and have postgraduate qualifications from Harvard, MIT and INSEAD—because they would not get visas. She is baffled. “Why would you not want ambitious, highly skilled, highly paid people to come to work and spend in this country?” Ms McCallum, an American, worries about London. “It used to have the feeling of being on the way up, but it’s beginning to lose that buzz. You hear lots of stories about people moving to Switzerland and Asia.”
There has been a trickle of departures, not all of them people in hedge funds. Bill Brandt, an American who worked for BP for 20 years, has moved to Arizona, where he works with the state university setting up clean-energy joint ventures. It was the non-dom levy that prompted him to leave: “It’s a lot less expensive in the US, and a lot easier to be entrepreneurial. And in the UK you could just look ahead and say, it’s going to get worse.”

The danger is not just that companies and people will leave London, but also that companies will not grow there and new people will not come. Mr Bagri says that his family will go back to India, but “my going doesn’t matter if there are people coming behind me. We’ve had 25 years of wealth creation. Have we got the people who are going to make the next 25 years happen?”

London still has a lot going for it—an efficient legal system, a clean polity, some brilliant schools and universities, clean air, beauty, fun and fairly safe streets. But it faces competition from Asia as capital accumulates there and the financial-services industry follows it. Singapore and Dubai, which already have far better infrastructure, are building the legal systems, regulators, schools and universities to attract the sorts of businesses and people that have made London prosperous.

Britain depends on London’s prosperity; but, as London has got richer, so its distance from its hinterland has grown. It has more foreigners, wealth, poverty, diversity, disruption and excitement than the rest of Britain or the European mainland. It is an adventurous, outward-looking place, tugging at its moorings between an inward-looking country and a troubled continent.

That is a problem for London, for it cannot shape its own future. The mayor has little power. The rules on financial services, tax and immigration, which matter so much to London, are set by the European Commission and the British government. Both are adopting measures which will do disproportionate damage to London. It is getting harder to run a financial-services company, to make money and, most worryingly, to get into Britain. This hardline immigration policy, fostered by tough economic times, will make it increasingly difficult for the city to go on reinventing itself in the way it has done over the past 25 years.

The maths of cities, as expounded by Geoffrey West, are not encouraging. They suggest that once the cycles of innovation that drive growth come to a halt, cities do not decline gently but collapse. Whether or not that happens to London will be determined in part by the economic and social forces that sweep uncontrollably across history, and in part by the voters of Britain and the bureaucrats of Brussels. They need to treat London with care, for the ecosystem of a city is a delicate thing. If it starts to decay, nobody will know until it is too late.
Tower power

London’s silhouette undergoes its biggest changes for half a century

BUILT when Sir Isaac Newton was discovering gravity, St Paul’s Cathedral was London’s tallest building for 250 years. With treasonous relish, this crown was seized in 1961 by the Empress State Building, a dumpy pile of concrete and glass, ignored by all but those unlucky enough to work near it. That decade saw architects prick the horizon with concrete monoliths, leaving a legacy of misplaced bravado. Now, as London’s skyline undergoes its biggest changes in decades, some wonder if the city has learned from past mistakes.

On July 5th the Shard, Europe’s tallest building (at 310 metres), will open on the south bank of the Thames near Tate Modern to much fanfare and not a little scorn. It will soon be joined by others. Across the river builders are at work on a tower nicknamed the “Walkie-Talkie”, or the “Pint”, due to be completed in 2014. Nearby, three other tall buildings are works in progress: 122 Leadenhall Street (the “Cheesegrater”), 100 Bishopsgate (too boxy to get a nickname) and the Bishopsgate Tower (the “Pinnacle” to developers, but the “Bandage” makes more sense). This comes on the heels of the Heron Tower, now the tallest in London’s financial district, which opened last year. Farther east by the Olympic park is the Orbit, a new take on the Eiffel Tower, which combines fairground ride with corkscrew.

In commercial terms, building tall is often an act of hubris. The higher a building reaches, the more its floor-plan is consumed by structural reinforcements. Skyscrapers make economic sense
where land is scarce, developers megalomaniacal and cash handy. But given the time it takes to build such things, the boom that inspires them often swings to bust once they are finished (builders completed the Chrysler and Empire State Buildings in 1930 and 1931; the Burj Khalifa in Dubai reached its lofty heights a year after Lehman Brothers came tumbling down). London’s new crop of towers offer fresh evidence.

Ken Livingstone granted permission for these projects during his first term as mayor, when Britain’s economy was booming. Plump finances at the turn of the 21st century nourished several grand schemes, such as the London Eye and the so-called “Gherkin”. But previous bouts of skyscraping had followed space-clearing disasters. St Paul’s is but one of 51 churches built after the Great Fire of 1666; the tower blocks of the 1960s rose in the gaps created by the Luftwaffe during the second world war. So the city is now a crowded and strictly regulated place, its skyline preserved as if it were a sculpture park. Glimpses of St Paul’s and the Houses of Parliament from nearby buildings have been protected for nearly a century, as have the views from several parks and hills. New buildings must bend to get out of the way, a design constraint that helps to explain their odd shapes—and nicknames.

The Walkie-Talkie has been squeezed around the waist to preserve lines of sight, making its upper floors bigger than those in the middle. One façade of the Cheesegrater leans over to avoid obstructing St Paul’s. The Shard has more freedom. Leaping out of a low-rise neighbourhood, it is nestled against a squat brick building with the British urban essentials—a Starbucks, a newsagent, a tanning shop. The tower may be visible from miles around, but criss-crossing bridges, tunnels and railway tracks make it hard to get near its base. In theory the building will disgorge affluent office workers and tourists onto the streets below, perking up the area. In practice, many such schemes fail.

Some of these towers are pleasing to look at, and the Shard is majestic. They fit an international modernist aesthetic characterised by a concrete spine (to house lifts and services), steel ribs to support the floors and a skin of translucent glass adorned with bright chrome. They seem likely to age well, mainly because this look is already quite old. Mies van der Rohe produced the prototype in 1921. Both the Orbit and the Pinnacle are riffs on an idea sketched out in 1917 by Vladimir Tatlin for a monument to international communism. But some are considerably less comely. A new tower near St George Wharf in Vauxhall seems keen to rival its neighbour to become London’s ugliest new building.

Tall buildings reflect the aspirations of their patrons. The Wren churches were paid for by guilds of merchants competing for prominence; the Gothic-revival spires of the 19th century by wealthy Anglicans who profited from industrialisation but hated the look of it. The skyline brutes of the 1960s and 1970s are courtesy of the government—which explains why they look like creatures of Leviathan. Now the city is peppered by petrotowers, tributes to its role as a financial entrepôt. They are the vision of globalisation: vast, impersonal and straining hard not to be brash.