

Prosperity, poverty and inequality in London 2000/01 to 2010/11

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This report looks at changes in poverty and inequality in London during the 2000s, with a focus on the impact of recession from 2008. It also considers how a decade has changed the geography of poverty in the Capital.

- The economy and labour market in London proved more resilient to the onset of recession than in other English regions. However, Inner London fared better than Outer London.
- Full-time employment fell by less across London than elsewhere in the country and there was a smaller rise in unemployment. An increase in part-time working, particularly among men, supports a view that fewer full-time jobs often led to under-employment, rather than unemployment.
- Employment levels among some population sub-groups, including young people and Black/Black British people, were lower in London than other regions before the recession, but had converged by 2010.
- Qualification levels among working-age adults were higher in London before the economic crisis than elsewhere and continued to improve more rapidly during the recession.
- While London coped well with some economic pressures, inequalities in earnings and incomes increased between 2006/8 and 2010. Those living on the lowest incomes were hit hardest, seeing their incomes after housing costs fall by 24 per cent in real terms compared with 3.5 per cent nationally.
- Wealth inequalities also widened faster in London than in other regions. The wealthiest Londoners increased their financial, physical and property wealth by 8 per cent between 2006/8 and 2010. This compared with 0.4 per cent among their counterparts elsewhere.
- Poverty became less concentrated in inner London and began to spread outwards. This was partly due to population change and 'gentrification' in Inner London, but also because the recession appeared to hit Outer London harder.

While positive in some respects, these findings show that the Capital's economic success and resilience in recession have not translated into lower poverty or reduced inequality. The implications of Inner London's changing population and increasing poverty in Outer London for housing, public services, and communities will need to be further explored and understood.

Introduction

This summary is part of a wider research project examining the impact on poverty and inequality of the recession, Labour's spending and programmes, and the Coalition's austerity measures and reforms. This report focuses on changes in the UK's capital city between 2001 and 2010. In terms of London politics, it relates to the two terms that Ken Livingstone served as (Independent, then Labour) Mayor, succeeded in 2008 by the Conservative, Boris Johnson. It considers not only how London weathered the onset of recession but also the particular effects on poverty and its geographical distribution.

London before the crash

In 2000/01, after two decades of rising prosperity, London held 15 per cent of England's population but accounted for 23 per cent of economic output. Earnings were around one-third higher than in the UK as a whole, while typical house prices were 78 per cent higher. London's population, compared with other English cities, was younger, better qualified, and more likely to be in professional and managerial work.

In the early 2000s, London's economic growth rate was similar to that for England as a whole. But from 2004, it began to accelerate faster. Financial services drove London's growth, while manufacturing continued to decline. House prices continued to rise more rapidly than for the country as a whole.

But London was poor as well as rich. In 2007/08 its poverty rate (looking at household incomes after housing costs) was 27 per cent compared with 22 per cent for England. Inequalities between rich and poor were also greater than for the rest of the UK. Using 2006/8 data, the National Equality Panel found the gap between the top and lowest 10 per cent (known as the '90:10 ratio') was larger in London than in the rest of the UK for men's and women's wages and earnings, income and wealth. A 2007 comparison between lower-range house prices and lower-range earnings confirmed that even modest homes in London were substantially less affordable than for England as a whole.

Recession and its consequences

Some might have expected London's reliance on the financial sector to leave it especially vulnerable to the effects of the global credit crunch from 2007/8. However, its economy proved more resilient to the recession than those of other English regions. Output growth remained strong in 2008, as other areas slowed down and it was the only region where output did not dip in 2009. By 2010, London's economic output was 8 per cent higher (at current prices) than in 2007, compared with 4 per cent nationally.

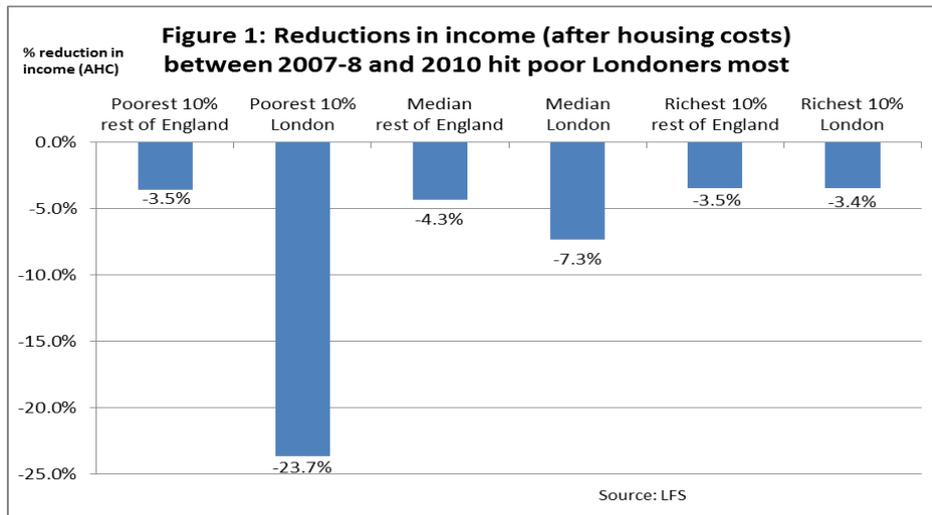
Between 2006/08 and 2010, the decline in full-time employment in London (-1.6 percentage points) was smaller than elsewhere, as was the rise in unemployment (+1.2 percentage points). Part-time employment increased in the Capital by 1.2 percentage points (mainly affecting men) while it stayed mostly level elsewhere. This supports a view that the consequence of falling full-time employment in London was more often under-employment than unemployment. It is also noticeable that London's relatively 'soft landing' in recession was more marked in Inner than Outer areas. For example, the rise in part-time employment was concentrated in Inner London.

Economic change also affected some population subgroups less severely in London than elsewhere. Among youth (16-24), the proportion unemployed was higher in London to begin with, but between 2006/8 and 2010, it grew less rapidly than elsewhere, eliminating the starting differential. Similarly, there was a fall of 5.7 per cent in full-time employment among Black / Black British people elsewhere in the country, but not to the same extent in London, where the proportion in employment had previously been lower.

In addition, at a time when qualification levels in the working-age population nationally were rising rapidly, those in London grew faster. For example, a 2.5 percentage point increase in the proportion with university degrees between 2006/8 and 2010, compared with 1.4 percentage points elsewhere. GCSE results in London's schools were already better than elsewhere in the country by 2008, with a smaller attainment gap between pupils on Free School Meals and others. This remained the case in 2010.

Even so, a relatively positive employment and qualifications story in London as the recession took hold occurred in the context of widening economic inequalities. Between 2006/8 and 2010 inequality in weekly earnings increased, more so than in the rest of England. The '90:10 ratio' went up in London by 8 per cent for men and women (according to the Annual Survey of Hours and Earnings), compared with a rise of 5 per cent for men and one per cent for women in the whole of England.

At the same time, falls in household income, after housing costs are taken into account, were greater in London than in other parts of the country – and especially marked among the poorest households. Figure 1 shows that while the incomes of people in the top tenth of the distribution were affected to much the same extent whether they lived in London or elsewhere, net incomes among those in the bottom tenth fell by a startling 24 per cent in real terms in London compared with only 3.5 per cent nationally (see Figure 1).

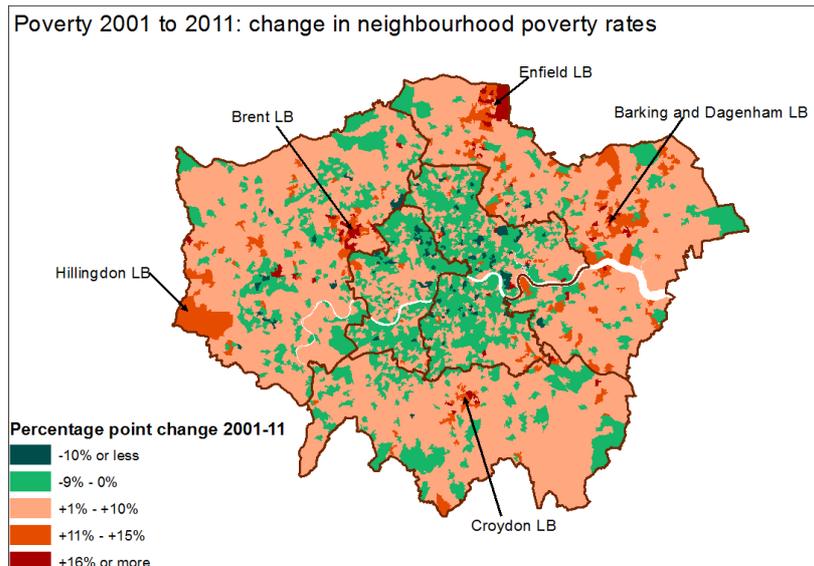


Inequalities in financial, physical and property wealth also increased faster in London during the first years of the economic crisis. Between 2006/8 and 2008/10 wealth levels among the least prosperous tenth of the population stayed flat in London, but grew by 14 per cent in England generally. Meanwhile, wealth among the top tenth of the distribution increased by 8 per cent in London, compared with 0.4 per cent in the rest of the country. As a consequence, the '90:10 ratio' for wealth in the Capital, which was already high (at 199) in 2006/8 had soared even higher by 2010 (to 215).

London's changing poverty map

The spatial distribution of poverty in London also changed. Mapping the proportion of households receiving Income Support and three other types of means-tested benefit shows that the greatest concentrations of poverty in 2001 were found in Inner East London. However, poverty rates, on this measure, fell considerably in the poorest inner-city neighbourhoods up to 2008, while increasing in less poor Outer London areas. This was mainly due to new house building and an influx of households that were less poor into Inner London, especially the Inner West. The numbers of poor households in these areas only fell a little – rather they were joined by new better-off neighbours.

As Outer London was hit harder than Inner London by recession, the shift of poverty into Outer London continued. Poverty went up across London between 2008 and 2011 as recession bit, but most in Outer London neighbourhoods. The map below shows how neighbourhood poverty rates changed across the whole decade 2001 to 2011 (with decreases shown in dark and light green, and increases in orange and red). In 2001, over three quarters (77 per cent) of the highest poverty neighbourhoods were in Inner east or west London. By 2011 this figure had fallen to closer to half (55 per cent). Thus a trend to decentralisation of poverty was evident before the Coalition's welfare reforms, which are predicted to have this effect.



Conclusions

These findings raise important questions about the state of the UK's capital city at the time the Coalition Government took power. On the one hand, they are positive, in terms of London's economy, its labour market, and the qualifications of its inhabitants. Yet economic success does not seem to have translated into lower rates of poverty or inequality. The recession, despite its origins in the financial sector, appears to have worsened economic outcomes for those Londoners who were already poor, affecting the better-off less. As London returns to economic growth, questions will arise about how far widening inequalities can be redressed. At the same time, it will be important to better understand how the changing population in Inner London has affected poorer residents, and the ways that rising poverty in Outer London has impacted on housing, public services and communities.

Further information

The full version of this paper, by Ruth Lupton, Polly Vizard, Amanda Fitzgerald, Ludovica Gambaro and Jack Cunliffe is available at http://sticerd.lse.ac.uk/case/new/research/Social_Policy_in_a_Cold_Climate.asp. This is one of a series of papers produced as part of CASE's research programme *Social Policy in a Cold Climate* (SPCC). The research, concluding in 2015, examines the effects of the major economic and political changes in the UK since 2007, focusing on the distribution of wealth, poverty, inequality and social mobility. *Social Policy in a Cold Climate* is funded by the [Joseph Rowntree Foundation](#) and the [Nuffield Foundation](#), with London-specific analysis funded by the [Trust for London](#). The views expressed are those of the authors and not necessarily those of the funders.